

S J R

80

DATE: 3/12/90

FURTHER:

Date of 5-Day Notice: ^{waived} 3-12-90
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3-16-90

Resources Committee considered SJR 80

Urging the American Petroleum Institute to locate a regional oil spill equipment cache in the State of the Alaska.

and recommended:

- replace with _____ CS _____ same title
- attached amendment(s) new title
- _____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

fiscal note(s) _____

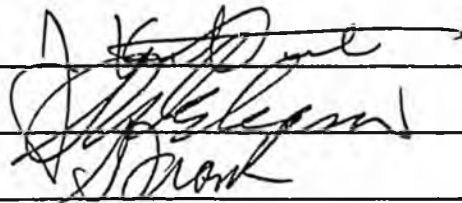
zero fiscal note(s) _____

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

OTHER RECOMMENDATIONS:



Fabrizio De Pass
 Chair: Signature and Recommendation

FISCAL NOTE

REQUEST:

Revision Date: 3-16-90 Agency Affected: _____
 Title: Urging the American Petroleum BRJ: _____
Institute to locate a regional oil spill cache
 Sponsor: Senate Special Committee on O & G Components: _____
 Requestor: Senate Resources Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This resolution has no state fiscal impact.

Prepared by: Tom Moyer *Tom Moyer* Phone: 465-3834
 Division: Staff, Senate Resources/Committee Date: _____

Approved by Commissioner: _____ Date: _____
 Agency: _____

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

FISCAL NOTE

REQUEST:

Revision Date: 3-16-90
 Title: Urging the American Petroleum Institute to locate a regional oil spill cache
 Sponsor: Senate Special Committee on O & G
 Requestor: Senate Resources Committee
 Agency Affected: _____
 BRU: _____
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This resolution has no state fiscal impact.

Prepared by: Tom Moyer *Tom Moyer* Phone: 465-3834
 Division: Staff, Senate Resources/Committee Date: _____

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- Impacted Agency(ies)

would continue through 1990.

Changes in CS SJR 80 (Res) have no fiscal impact. This fiscal note is appropriate.

Alaska State Legislature

Senator Drue Pearce, Chair
Senator Tim Kelly
Senator Rick Halford
Senator Paul Fischer
Senator Al Adams



WHILE IN JUNEAU:
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SENATE SPECIAL COMMITTEE ON OIL AND GAS

TO: Senator Bettye Fahrenkamp, Chair
Senate Resources Committee

FROM: Senator Drue Pearce *Drue Pearce*

DATE: March 13, 1990

RE: Senate Joint Resolution 80

Attached is a copy of SJR 80 requesting the American Petroleum Institute (API) to set up a regional oil spill response center in the State of Alaska. I would appreciate your scheduling SJR 80 for a hearing in your committee as soon as possible.

After discovering that the Petroleum Industry Response Organization (PIRO) had not chosen Alaska as one of the five nationwide regional oil spill equipment cache areas, I felt it was important for the legislature to urge PIRO to reexamine its preliminary choices.

SJR 80 requests that PIRO reconsider its findings and place a regional response center in the State of Alaska.

and page 2 line 3

On page 1, line 29 of the resolution PIRO's name is incorrect. It should read . . . "Petroleum Industry Response Organization." I would appreciate you making that change when the resolution is scheduled before your committee.

If you have any questions, please call me or Kirsten Schenker of my staff.

Thank you.

Attachment

DP:ks

SJR 80

APR 3 1990



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA 99669
PHONE (907) 262-4441

DON GILMAN
MAYOR

March 28, 1990

Senator Bettye M. Fahrenkamp
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Fahrenkamp:

I want to thank you and the Senate Resource Committee for your quick consideration and approval of SJR 80. The resolution encouraging the American Petroleum Industry to consider Alaska in their Petroleum Industry Response Organization plan. Location of oil spill equipment that can be readily mobilized throughout the state will be a positive addition to our overall oil spill response capability.

Sincerely,

A handwritten signature in cursive script that reads "Don Gilman".

Don Gilman
Mayor

Statement of
Jim Butler, Special Assistant to the Mayor
Kenai Peninsula Borough
before the Alaska Senate Resource Committee
SJR No. 80
Juneau, Alaska

March 16, 1990

Madam Chair and committee members. My name is Jim Butler and I work as a special assistant to Mayor Don Gilman of the Kenai Peninsula Borough. Since the grounding of the Exxon Valdez nearly one year ago, the Kenai Peninsula Borough has been actively involved in responding to and dealing with the impact of oil on the communities of the Kenai Peninsula Borough.

Because of the many issues that surfaced as a result to the spill, Mayor Gilman brought me on board his staff. For the past year I have coordinated the borough's activities associated with the ongoing response effort. I have also begun to work closely with the local oil industry in Cook Inlet, along with the Alaska Department of Conservation, to look for new ways to prevent and respond more effectively to oil spills in Cook Inlet.

Previously, I have worked as a U.S. Senate staffer in Washington D.C. on transportation, fisheries and commerce issues of importance to Alaska. During my staff work in Washington, D.C. I continued to return home and work in the local Kenai congressional district office in the summer, as well as commercial fish. My background in Cook Inlet includes 12 years as a commercial salmon and halibut fisherman, the past 7 yrs. running my own fishing boat. I also participated in the 1987 Glacier Bay oil spill incident by acting as a liaison to the Alaskan Congressional Delegation.

Today I would like to address your committee on SJR 80, a resolution encouraging the American Petroleum Institute, Petroleum Industry Response Organization (PIRO) to locate a oil spill response equipment cache in Alaska.

As you are probably aware, after the grounding of the Exxon Valdez, it became painfully obvious that a lack of oil spill response equipment in Alaska contributed significantly to the delayed mobilization of an adequate oil control, containment and recovery effort. Many familiar with Cook Inlet also remember the same frustration of equipment shortages from the 1987 response to the Glacier Bay oil spill in Cook Inlet.

While it is clear that the Alaskan oil industry should be better prepared to respond to medium and large size oil spills in Alaska, and in fact they are becoming better prepared, the costs associated with the initial capitalization of large inventories of equipment which are likely to be used seldomly, often run so high many operators simply cannot afford it.

Initial attack oil spill equipment may be available in the area of a spill but if the spill is larger than local resources can handle, valuable time is wasted while equipment is mobilized from the lower 48 to help the cleanup effort. All the variables of the logistical equation of moving big equipment far distances must add up just right or you end up with a tragically slow response and a far greater likelihood of major environmental impact.

The American oil industry has recognized the need to pool the cost of acquiring and holding major oil spill response equipment in regional centers so it might be readily available to local response co-ops that are faced with a spill that over taxes their response capabilities. With the lessons of the Exxon Valdez fresh in the collective national industry mind,

the API has begun to explore how through the Petroleum Industry Response Organization Inc, or PIRO, the oil industry might develop equipment caches with response experts in regional centers around the nation. Unfortunately, Alaska has not been identified at this point as a location for such a response center.

While the API and PIRO have made great strides in developing a concept that addresses acquiring and holding regional inventories of major oil spill response equipment using many of the lessons of the Exxon Valdez to support their positions, it seems rather short sighted to exclude Alaska from their plan. Given the role Alaska plays in the production and transportation of a large part of the nations oil and the likelihood of major oil spills in remote locations associated with this activity, the Kenai Peninsula Borough agrees that a closer examination of the needs of the Alaska oil production region is in order.

The Kenai Peninsula Borough has felt the impacts of oil spills on its environment and economy in two of the last three years and we continue to experience impacts of the most recent oil spill. We know too well that all too often valuable time is lost during the critical first few hours and

days of a oil spill searching for more equipment as local initial attack equipment is overtaxed.

We recognize that much of the Cook Inlet field is in decline and facing narrowing operating margins. We also recognize that more and more fields in Alaska are in decline and that it is these marginal fields that will continue to employ Alaskans and contribute significantly to our economic base. A centralized inventory of large spill equipment that can be mobilized throughout the state when needed will help industry better afford the new cost of higher levels of oil spill response preparedness and hopefully, keep them economically viable and employing Alaskans longer.

More importantly, the citizens and communities that face the highest risk of environmental and economic impact in the areas of potential oil spills will benefit if response equipment can be rapidly deployed from an Alaskan based location.

With the still developing local response corps integrated with regional response plans, Alaska should be able to provide a system that can effectively utilize a central major oil spill equipment cache. Alaskans

should not have to wait for equipment from the west coast to be mobilized to Alaska by suppliers unfamiliar with Alaska's unique logistical challenges.

On behalf of the Kenai Peninsula Borough, I would like to thank your committee for considering SJR 80 and would encourage you to support it. This positive statement from the Alaska State Legislature will send a clear message to the nations oil spill planners.

With the nations most promising prospects for future oil exploration and development in Alaska, the State of Alaska and its citizens will continue to bear the frontline risk of oil spills. By encouraging the API and PIRO to take a closer look at Alaska's contribution to the nations oil consumption and the role Alaska could play in the PIRO strategy, we believe you are doing a service not only for the citizens of the Kenai Peninsula Borough but for the citizens of the State of Alaska as well.

That concludes my comments and I would be glad to answer any questions that the committee might have.

EXECUTIVE SUMMARY
OF KEY RECOMMENDATIONS OF THE
STEERING COMMITTEE REPORT
AND RECOMMENDATIONS ON THE IMPLEMENTATION OF PIRO
VOLUME I

JANUARY 5, 1990

I. INTRODUCTION

A. On June 14, 1989, the American Petroleum Institute's Task Force Report on Oil Spills concluded that, neither government nor industry "has the equipment nor the response personnel in place and ready to deal with catastrophic tanker spills." Accordingly, the API Report recommended the establishment of an industry funded Petroleum Industry Response Organization (hereinafter "PIRO") capable of responding to catastrophic spills from a tanker in waters contiguous to the United States and within

the 200 mile Exclusive Economic Zone, including harbors and river mouths.

B. After six months of deliberations, the PIRO Implementation Steering Committee is pleased to submit this report on its conclusions and recommendations, and on its progress on the tasks assigned to it. The reasons supporting each of the Steering Committee's recommendations are set out in the following report.

C. The Steering Committee unanimously concurs in the API Report's recommendation to establish PIRO as an industry-wide catastrophic oil spill response organization. Our recommendation to proceed with the implementation of PIRO in the manner we have proposed, however, is expressly conditioned upon the validity of our assumption that several critical, but as yet unresolved, factors will turn out as we currently anticipate:

1. First, we have assumed that Congress will pass legislation that is supportive of the concept of an industry-wide catastrophic spill response organization like PIRO, and that the ultimate legislation will not render PIRO duplicative of the federal strike teams or unduly expose PIRO and its creators to liability that rightfully should remain with the spiller. A critical

factor in this respect will be the retention of limited legislative immunity for spill responders.

2. Second, for the Steering Committee's recommendations to stand, it is imperative that the Coast Guard be deputized under the pending legislation, and be willing through agreements with PIRO and other spill responders, either to coordinate and direct or to assume federal funding of all catastrophic spills in U.S. waters.

3. Third, it is critical in the view of the Steering Committee that PIRO continue to have the support of a broad segment of the industry.

4. Fourth, it is important that PIRO obtain tax rulings that are consistent with the Steering Committee's recommendations regarding the corporate structure of PIRO.

5. Finally, to be viable as the bold, fast reacting response organization we have proposed for catastrophic spills, PIRO will have to be able to obtain insurance in amounts commensurate with the risks it will be bearing and at rates that are not unduly prohibitive.

II. KEY LEGISLATIVE PROPOSALS AFFECTING THE STEERING COMMITTEE'S
ENDORSEMENT OF THE RECOMMENDATION TO FORM PIRO

A. DUPLICATION

In the view of the Steering Committee, the legislation currently pending in Congress will not inherently lead to duplication between the federal strike teams and the PIRO regions. If PIRO is established as we propose, it will become a mainstay of the federal response arsenal and duplicative federal strike teams will be neither required nor proposed.

B. THE NEED FOR PIRO UNDER THE PROPOSED LEGISLATION

Given the scope of the vessel and facility owner contingency plan obligations proposed in the pending federal legislation on oil spills, and the absence of any existing U.S. cooperatives capable of handling offshore spills larger than 25,000 barrels, the pending legislation gives rise to an industry-wide need for an organization like PIRO.

C. THE COAST GUARD'S OBLIGATION UNDER THE PENDING
LEGISLATION TO COORDINATE AND DIRECT ALL PUBLIC AND PRIVATE
RESPONSE EFFORTS IN THE EVENT OF A MAJOR SPILL

1. The Steering Committee recommends that the Coast Guard remain free to elect simply to "monitor" the overwhelming preponderance of small (i.e., 1,200 barrels or less) and medium (i.e., less than 24,000 barrel) spills where (i) the spiller is known and (ii) the Coast Guard has determined that the owner or operator has the financial resources and technical capability to undertake the response properly.

2. Where, however, the Coast Guard determines that the spill is beyond local capabilities (excluding PIRO) or where an open sea spill exceeds 25,000 barrels or a protected water spill is larger than 40,000 barrels (i.e., the capacity of the largest existing U.S. cooperatives), the Steering Committee recommends that the Coast Guard be required, at a minimum, to "coordinate and direct" the spill.

3. In exercising this proposed new role of "coordination and direction", the Steering Committee recommends that the Coast Guard be required to perform the same functions it is merely authorized to perform under its "monitoring" role pursuant to the Marine Safety Manual, Vol. VI, Sec. 7.B.3.a., Commandant's Instruction M16000.11.

4. In the view of the Steering Committee, the statute and regulations defining the concept of "coordination and direction" should assign to the Coast Guard appropriate authority, and the obligation to exercise it, to resolve disputes between conflicting federal and state regulatory agencies.

D. THE ALLOCATION OF RISK BETWEEN THE SPILLER AND THE CLEANUP RESPONSE ORGANIZATION UNDER THE PROPOSED LEGISLATION

1. The Steering Committee recommends adoption of the House proposal regarding the allocation of risk as between the spiller and the spill responder. The House bill provides that, when the President retains or directs a person to engage in spill response activity, that person is not liable for removal costs or damages arising from that person's removal activities unless that person is grossly negligent or acted with willful misconduct.

2. The Steering Committee recommends adoption of the Coast Guard's proposal to extend the House risk allocation provision to responders even when the Coast Guard is only "monitoring" the spill.

3. The Steering Committee recommends that the states be required by federal law to ensure that their laws are

not inconsistent with the proposed House risk allocation provision. Alternatively, the Steering Committee recommends that the PIRO board pay special attention to state oil spill immunity laws in determining the precise role PIRO is willing to undertake within the boundaries of any given state.

III. THE ROLE OF PIRO

A. RECOMMENDATIONS RELATING TO PIRO'S RESPONSE ROLE

1. SPILLS TO WHICH PIRO WILL RESPOND

The Steering Committee recommends:

a. That each PIRO region be designed to respond primarily to catastrophic (defined for purposes of this report as open sea spills in excess of 25,000 barrels, and protected water spills in excess of 40,000 barrels) oil spills of up to 216,000 barrels in the coastal zone or tidal waters of the United States;

b. That each PIRO region be staffed and equipped to respond to any oil spill in U.S. coastal zone and tidal waters judged by the U.S. Coast Guard to

be in excess of the local (i.e., non-PIRO) oil spill response capacity; and

c. That each PIRO region be staffed and equipped to respond to any spill of a tanker cargo traversing inland U.S. waters upstream from a river mouth on its way to or from an upstream facility, provided the tanker cargo would otherwise be (or have been) covered by PIRO during the open sea, coastal zone or tidal waters portion of its voyage, and provided the spill is judged by the U.S. Coast Guard to be in excess of the local (i.e., non-PIRO) oil spill response capacity;

d. That each PIRO region be authorized to respond to any other oil spill where PIRO is retained by the Coast Guard and directed to respond.

e. As an overriding precondition, the Steering Committee also recommends that PIRO be prohibited by charter from responding to any spill in excess of 1,200 barrels, unless the Coast Guard has first initiated its authority to "coordinate and direct" the spill or to "assume federal funding of the spill."

f. For minor spills (defined for purposes of this report as less than 1,200 barrels), wherein the Coast Guard has judged that the spill exceeds local oil spill response capabilities (again excluding PIRO), the Steering Committee recommends that PIRO be authorized to participate in the spill response as a subcontractor responsible only for providing equipment and equipment supervision, provided PIRO has received acceptable indemnification assurances from the spiller.

2. THE PIRO TIERED RESPONSE CONCEPT

The Steering Committee recommends that PIRO management undertake a review of its cross-regional response capability and, particularly its ability under local law to move response personnel and equipment outside of a given PIRO region. Specific guidelines should be developed governing the representations PIRO is willing to make for purposes of contingency plan development or otherwise.

3. THE PIRO HEADQUARTERS, REGIONAL CENTERS, AND STAGING AREAS

The Steering Committee recommends adoption of the API Report's recommendation to establish the PIRO

Headquarters in Washington, D.C., and to establish five regional centers located in the North East, Central/South Atlantic, the Gulf, the Pacific Southwest, and the Pacific Northwest regions of the United States.

The Steering Committee has not completed its evaluation of the specific locations for supplemental staging areas. In the interim, however, the Steering Committee recommends adoption of the API Report's recommendation to establish 19 staging sites within the area of responsibility of the five proposed regional centers. We also recommend consideration of two to four additional staging areas which may prove necessary to ensure coverage within PIRO's area of operations.

The Steering Committee recommends that the question of the number of response centers for PIRO be reviewed as events evolve with the pending legislation to determine whether additional centers or staging areas are warranted.

4. PERFORMANCE STANDARDS

The Steering Committee recommends that PIRO management clearly and consistently declare its position that:

- the technology to enable anyone, even under the best of circumstances, to "remove" all of the oil discharged in a catastrophic spill either from the water or from the shoreline does not currently exist.

- That in "adverse weather", it is often impossible or far too dangerous to allow response equipment and personnel to leave the shoreline even when the equipment is locally staged and ready to begin the response. Thus, PIRO cannot promise to be able to remove any oil in truly "adverse weather."

- That, in light of these concerns, the Steering Committee recommends that PIRO be authorized to represent only that it will make its very best effort in responding to any spill.

5. PIRO'S RELATIONSHIP WITH EXISTING COOPERATIVES AND OIL SPILL SUBCONTRACTORS

The Steering Committee recommends that existing local cooperatives maintain and, ideally, expand their present capabilities throughout the country thereby leaving PIRO better able to concentrate on developing

and improving its ability to respond to open sea catastrophic spills.

The Steering Committee recommends a full time PIRO staff of 303, including a complement of 52 for each of the five PIRO regional centers.

6. PIRO IN THE CONTEXT OF A "FEDERALIZED" SPILL

The Steering Committee recommends that PIRO and the Coast Guard develop appropriate procedures to ensure that the Coast Guard expeditiously reconsiders its initial determination not to federalize a spill where the spiller does not, or cannot, pay the responder's operating costs on a current basis.

7. PIRO'S ROLE IN THE DEVELOPMENT OF VESSEL AND FACILITY OWNER CONTINGENCY PLANS

The Steering Committee recommends:

- a. That PIRO be authorized to enter into contracts obligating PIRO to provide oil spill response services under terms consistent with the recommendations contained in the report, and authorizing covered vessel and facility owners to cite PIRO as their catastrophic spill

subcontractor in the preparation of the proposed oil spill contingency plans.

b. That PIRO be precluded by charter from participating directly or otherwise in the development of individual vessel or facility owner contingency plans.

c. That PIRO be expressly precluded from advising on or approving the adequacy of any vessel or facility owner's contingency plan except in regard to PIRO's capabilities.

8. PIRO'S CONTRACTUAL RELATIONSHIP WITH THE SPILLER/RESPONSIBLE PARTY

The Steering Committee recommends that PIRO develop and carefully utilize special procedures and contractual provisions consistent with those suggested in the body of the report to define and limit PIRO's relationship to the spiller and, hence, its exposure to subsequent claims for damages or mismanagement.

9. PIRO'S ROLE IN THE DISPOSAL OF WASTE AND HAZARDOUS MATERIAL DURING A SPILL RESPONSE

The Steering Committee recommends that, to the extent possible, PIRO should avoid undertaking shoreside management of the disposal of waste oils and other materials once they have been collected during clean-up and removal operations.

With respect to the removal of waste oils and other regulated materials, the Steering Committee recommends that PIRO delegate these removal obligations to subcontractors to the maximum extent permissible under law.

B. PIRO'S READINESS AND TRAINING ROLE

The Steering Committee recommends that PIRO management develop formal selection, training and inspection criteria to include classroom training, equipment familiarization, regular field exercises, unannounced drills and periodic inspections. These exercises and drills should include actual field deployment of personnel and equipment and joint exercises with relevant local, state and federal representatives. The operating vessel and facility owning companies who contract with PIRO should be required, periodically to participate in training exercises to further clarify their understanding of their role and responsibility during a spill.

C. PIRO'S RESEARCH AND DEVELOPMENT ROLE

1. The Steering Committee recommends a broad-based research and development program involving the expenditure of \$30 to \$35 million over the first five years of PIRO's operations.

2. The Steering Committee recommends that PIRO rely, to the extent practicable, on the resources of contract researchers performing under the supervision of PIRO. The Steering Committee also recommends that any patents flowing from PIRO's research and development efforts be placed in the public domain so that the contribution to the world's oil spill cleanup capability will be maximized.

IV. STEERING COMMITTEE'S RECOMMENDATIONS REGARDING THE STRUCTURE OF PIRO

The Steering Committee recommends that PIRO's services and membership be extended broadly to the owners and operators of tankers and coastal facilities who will be required to comply with the newly proposed certification requirements set out in the pending oil spill legislation.

A. TWO-ENTITY STRUCTURE

The Steering Committee recommends that two not-for-profit corporations be organized. One entity (PIRO) would be a non-membership operating company. The second entity (a to-be-named funding association hereinafter referred to as "Association") would be a membership company, and the dues from the members of Association would be used to fund the operations of both entities. Persons desiring to designate PIRO as their response organization for purposes of proposed contingency plan obligations would be required to become members of Association. Members using PIRO on an ongoing basis would be voting members of Association, while members using PIRO on a per-voyage basis would become non-voting members. Dues paid to Association would consist of an initial amount to provide capital and annual charges calculated to cover operating expenses of PIRO (to which Association would contribute funds).

B. COLLATERAL ISSUES.

1. TAXES. The Steering Committee recommends that a tax ruling that both entities are exempt from income tax be sought, with the result that, if obtained, the periodic dues paid to Association would be currently deductible by the member companies. Whether initial payments

V. STEERING COMMITTEE'S RECOMMENDATIONS RE FUNDING

PIRO will function in two different modes and will obtain funds for each in different ways: 1) Readiness mode -- PIRO will obtain funds from Association. Association will collect initial cash contributions and periodic dues from members; 2) Spill response mode -- PIRO will recover all its expenses either from the spiller or, where the spiller cannot pay or where the spiller's limits have been exceeded, from the Federal Oil Spill Compensation Fund.

A. THE READINESS MODE.

Association will recover all of its costs through member dues which will be calculated separately for each member by multiplying a per barrel amount (the same for all members) times the volume of oil covered for that member by PIRO. Tanker operators and cargo owners may obtain coverage either directly by becoming members of Association, or indirectly by being deemed to be covered under the membership of the facility to which they are delivering the oil.

1. INITIAL CASH CONTRIBUTIONS

PIRO will require substantial amounts of cash to purchase capital equipment and to meet operating expenses incurred during start-up. Association will

obtain these funds through a combination of direct cash contributions from its members and debt financing from private financial institutions. At first, member guarantees may be needed to secure Association borrowings. Members who join Association after initial cash contributions have been collected will pay their pro rata share of such contributions and guarantees with an adjustment for the time value of money.

2. MEMBER DUES IN ASSOCIATION

On-going cash requirements of PIRO will be met by member dues paid into Association and subsequently contributed to PIRO. These payments will cover cash operating expenses, including debt service, R&D expenditures and ongoing capital requirements.

B. THE SPILL RESPONSE MODE.

PIRO will function as an agent acting on behalf of the spiller. Consequently, all PIRO outlays during a clean-up will be repaid by either the spiller, the Coast Guard or the Federal Oil Spill Fund, as specified in the pending oil spill legislation. While PIRO will seek to recover these costs at the earliest possible date, in practice this may take 60 to 90 days or more to accomplish. Accordingly, either PIRO or Association will obtain a \$20 million credit

facility from a private financial institution to provide interim funding during a spill. A small portion, perhaps \$1 million will be maintained as a cash reserve.

VI. PROPOSED PIRO BUDGET

A. The Steering Committee recommends the following initial funding for PIRO:

PIRO BUDGET ESTIMATES
(THOUSANDS OF DOLLARS)

	<u>CURRENT</u>	<u>ORIGINAL</u> <u>API</u>	<u>EXPLANATION</u>
Employee Expenses	\$ 20,910	\$ 15,725	Additional people/ benefits
Mails, Supplies, Util. Purch Services & Work Contracts	5,870	2,600	greater footage, etc.
Fees & Taxes	10,590	3,700	
Misc Costs	600	0	
	3,000	6,000	API included many items under misc now broken out
Depreciation	0	7,400	Current budget cash basis only. Capital items included as they arise each budget cycle.
Dept Service	22,000	0	API assumed 0 debt.
Startup Expenses	2,900	0	
Operating Budget (est)	\$ 65,870	\$ 35,425	
R&D Budget	\$ 6,725	\$ 6,725	Same scope
Capital Budget			
Cash portion	\$ 21,750	\$100,000	Greater scope brought total up, although only 15% is cash
Total Budget-Annual	\$ 94,245	\$ 94,345	
5 Year	\$393,370	\$275,000	

5 year budget figure includes initial capital, R&D plus operating costs escalated 4-5%/year

B. Actual cash requirements for the first calendar year will be somewhat less than the totals shown because of less than full year operation. An initial cash call amounting to one (1/3) of this total budget estimate would be due as soon as it is decided to proceed with the formation of PIRO.

VII. CONCLUSION

A. There remains a substantial body of work to be completed before PIRO can be brought into formal existence as an oil spill response organization. The Steering Committee believes the major strategic considerations relating to the ultimate questions of whether and how to form PIRO have now been addressed. Based upon our study of the issues and the needs of the country, the Steering Committee unanimously and strongly recommends proceeding immediately with the formation of PIRO along the lines we have proposed.

B. To effectuate this recommendation, the Steering Committee recommends that each company interested in participating in the formation of PIRO carefully review the enclosed report and its recommendations. We urge the members of PIRO Implementation, Inc. and any other interested companies to indicate their interest in proceeding with the recommendations by the end of February 1990 so that we may begin the process of hiring a staff, ordering long lead time equipment, and attending to the myriad other organizational and procedural steps required to get PIRO underway. The Steering Committee recognizes that it is unlikely that Congress will have completed its work on the pending legislation by this date. There are, however, numerous

matters that should be begun now, even if subsequent events force us to reconsider or modify the role proposed for PIRO.

C. The Steering Committee was supported in its work by subcommittees covering functional and business aspects of the ultimate PIRO Organization. Approximately 75 executives from the Implementation Group companies were involved in this subcommittee work. Their efforts greatly assisted the Steering Committee in developing the concepts and specific proposals contained in this report. Executive Summaries of the individual subcommittee reports are found in Appendix 4 of the report, and the subcommittees' complete reports are found in Volume II of the report.

D. The Steering Committee recommends that the members of the PIRO subcommittees be requested to continue their efforts towards the implementation of PIRO until February 28, 1990. Assuming a final decision to proceed with PIRO has been reached by that date, PIRO will be able to proceed with the hiring of its own initial staff component and the executives presently working on the subcommittees can be relieved of their responsibilities. Finally, it is recommended that the present members of the Steering Committee continue serving in their present capacity as directors of PIRO Implementation, Inc. until further notice.