

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672
2108 SCOMM 79: HOUSE SPEC. COMM. ON OIL & GAS, 1991-1992

state is, in effect, paying 25% of these costs.

A. What goes into the net-back.

Several categories of spill-related expenditures affect well-head value. These include:

1. Conservation Surcharge payments by producers. Department of Natural Resources and industry sources indicate that at least some producers deduct the \$.05/barrel tax in calculating royalty and severance tax liability. If this deduction is uniformly claimed throughout the industry, then the net surcharge is really only \$.0375 per barrel instead of \$.05. Since collections under this tax in 1990 were \$26.9 million, the wellhead revenue impact could be as high as \$6.7 million. It is not clear why this tax is viewed as a transportation charge to be used in the net-back.

2. MPA/MSRC. The Marine Preservation Association (MPA) is a voluntary association of oil companies that assesses dues based on oil transported in the United States. The MPA makes grants to the Marine Spill Response Corporation (MSRC), which intends to provide depots of spill response equipment throughout the United States.

According to Bob Aldag, President of the MPA, the association members pay dues to the association based on the amount of oil shipped. The association looks first to the recipient of the oil -- that is, the entity receiving the oil at a dock or terminal -- for payment. If that entity is an association member, it pays dues on that shipment. If that entity is not a member, the

association next looks to the owner of the receiving terminal for payment. If neither the recipient nor the terminal owner is a member, the association then looks to the shipper.

Theoretically, it would seem that if the charge is paid by the recipient, then it is not a transportation charge and should not be included in the net-back. Much Alaska production is shipped by a producer to the producer's own refinery, so that the same entity is both the shipper and the recipient. Oil company and state sources indicate various treatments of these expenditures -- some say they deduct \$.05/barrel, others \$.005/barrel from wellhead value. Some may not deduct the charge at all. Without access to confidential information, it is impossible to estimate the magnitude of deductions for this charge, and their total impact on wellhead value. Depending upon the treatment of these payments by producers, the wellhead revenue impact could be as high as \$8 million in a year.

3. TAPS tariff charges. The most significant spill-related element in the net-back methodology is the tariff effect of expenditures made by Alyeska. Alyeska's expenditures for spill prevention and clean-up equipment and operation are rolled into the TAPS tariff, and have the effect of reducing wellhead value for both severance tax and royalty purposes.* Alyeska has provided a summary of its spill-related expenditures, which is attached as

*Alyeska has provided summaries of its expenditures. Alyeska, of course, does not set the TAPS tariffs; rather, each owner company of the pipeline files its own rate with FERC. For the purpose of this report, it is assumed that all Alyeska expenditures make their way into the tariff of one owner company or another.

Exhibit 1. The summary shows expenditures from 1989 to the present, and projects expenditures through 1997. Total actual costs to date have been \$208.3 million; an additional \$400 million is projected through 1997, for a total of \$608.3. Assuming a 25% state revenue effect, the state's share of these expenditures would be \$152.1 million.

However, capital expenditures are not simply included in the tariff in the year in which they are incurred, but rather are depreciated over time. Using the numbers provided by Alyeska, the Washington, D.C. firm of Horst and Frisch has performed an analysis of the impact on the tariff of these expenditures, and the resulting reduction in state severance tax and royalty revenues.* Their analysis is attached as Exhibit 2 (hereafter, "Horst"). They calculated the net present value of the revenue impact of these expenditures, through 2011, to be \$154.1 million, a number very close to simply taking one quarter of the expenditures.

It should be noted that this number is the net present value of expenditures through 1997, calculated out to 2011. Their Table 2, lines 1 and 2, shows operating expenditures and capital expenditures for each year. Because the summary provided by Alyeska did not project costs beyond 1997, these two lines show no additional expenditures after that year. It is to be expected that there will be operating and capital expenditures in these years; an

*Horst and Frisch, on contract with the State, performs tariff analyses of TAPS. The Department of Environmental Conservation agreed to pay for their time to perform the analysis included in this report.

analysis that included estimates of these expenditures would, of course, show a higher net present value.

The annual revenue impact of Alyeska's expenditures is between \$16.1 and \$19.2 million from 1991 through 1997. Horst, first bar chart and Table 2, line 37. This represents 25% of the \$65 to \$78 million that the TAPS owners will be including in the tariffs each year for Alyeska's expenditures. Horst Table 2, line 35. Thus, the state is, in effect, paying about \$18 million a year for spill response capabilities along the pipeline and in Prince William Sound.

4. AS 43.56 property taxes. Property taxes levied on pipeline and terminal activities -- including spill prevention expenditures -- are incorporated into the tariff. Thus, for every \$1 of property tax collected, the state loses \$.25 in severance taxes and royalties, for a net tax of \$.75. However, because of the set-off provision for municipal taxes (described above) the state does not actually collect the \$1 in property tax that is levied. Rather, the municipality in which the property is located collects the lion's share of the tax. When the municipality's share exceeds 75% (as it does, for example, in Valdez) and when the tax can be included in the tariff, the state actually loses revenue by levying the tax. According to the Department of Revenue, Valdez's share of the proceeds of AS 43.56 is now 81%. Thus, if the state collects \$1.00 in property tax, \$.81 goes to Valdez. But wellhead revenues go down by \$.25 because the tax is incorporated into the tariff. Thus, the state loses \$.06 for every dollar of

tax paid.

According to Alyeska and the Department of Revenue, spill equipment associated with marine transportation is not taxed under AS 43.56. (Municipalities may in some instances tax this property.) Alyeska's figures indicate that it has spent \$23 million in capital expenditures for the pipeline and terminal spill prevention equipment. If this property is assessed at this amount under AS 43.56, then the tax on it would be \$460,000 (\$23 million X 20 mills). At \$.06/\$1.00, the state is losing about \$27,600 a year because of the property tax on spill equipment.¹⁰

B. Marine Transportation or Pipeline Costs?

The expenditure summary that Alyeska provided breaks out expenditures to date into three categories: pipeline, terminal and Prince William Sound. (Projected expenditures were not broken out into categories.) The third category accounts for three fourths of Alyeska's expenditures (\$157.9 million of \$208.3 million, and presumably includes escort vessels, skimmers, barges and the like, as well as the costs to operate those services.

The theoretical basis for including pipeline and terminal costs in the tariff seems clear. It is not so clear that the costs of providing protection in Prince William Sound are theoretically a tariff item as opposed to a marine transportation expense. There are two ramifications of this distinction that should be

¹⁰Some of the pipeline expenditures are no doubt outside the Valdez municipality. Depending upon the municipal tax rate in other municipalities, this number may be reduced. However, the average municipal share of AS 43.56 taxes is 75%.

considered.

1. In a net-back calculation, it is largely irrelevant whether a transportation expense is allocated to pipeline tariff or marine transportation. The cost reduces wellhead value either way. There is, however, one exception to this. Some producers, such as Arco, have settled their dispute with the state over royalty obligations not only for past years but for the present and for future years as well. These settlements use a formula that incorporates, and thereafter ignores, marine transportation costs. That is, the settlements agree upon a Valdez price at a certain point in time: a price that is net of marine transportation costs. This price is then indexed to a market-basket of oils for which there is a known market value. If the index goes up, the royalty value at Valdez goes up by the same degree. Marine transportation costs no longer need be considered. The Valdez price is then netted back to the wellhead using the average actual TAPS tariff.¹¹ In this situation it does make a difference whether the expense is allocated to the tariff or to marine transportation. If it is allocated to the tariff, it will further reduce wellhead value. If it is allocated to marine transportation, it will not. At this

¹¹This methodology has been criticized by some because as the price of oil fluctuates, the presumed transportation costs also fluctuate, in a way that may not reflect reality. For example, suppose the starting price at Valdez were \$10 per barrel, calculated using average marine transportation costs of \$1 per barrel. If the index then raises the Valdez price to \$20, implied transportation costs have theoretically risen to \$2 per barrel, whenever no actual increase in costs may have occurred. Defenders of the settlements have pointed out that if the index falls, implied transportation costs also can fall below actual transportation costs.

point in time, Arco is the only major producer to have made such a settlement; however, such settlements are being pursued by the state and other producers, for both tax and royalty obligations.

In this situation, if costs that are properly considered marine transportation expenses instead go into the tariff, state revenues are being inappropriately impacted. Arco currently produces about 28% of the state's production, with a royalty obligation of 12.5% on that production. Of the \$154.1 million in lost revenue that Horst & Frisch calculate as the net present value of spill costs, about half is royalty and half is tax. Arco's royalty share of that amount ($28\% \times \$154.1 \text{ million} \times .5$) is \$21.6 million. If three quarters of that amount was incurred for marine transportation expenses in Prince William Sound, Arco's royalty payments will have been inappropriately reduced. The net present value of that reduction would be \$16.2 million. If all producers settled using similar formulas, for both tax and royalty, the state would be losing \$115.6 in wellhead reductions that should have been allocated to marine transportation.

2. The second consideration relates to Alyeska's unique and somewhat perplexing role as a response action contractor in Prince William Sound. Alyeska is a consortium of regulated pipeline companies, each of which is a common carrier whose rates are subject to review by the Federal Energy Regulatory Commission (FERC).

When Congress passed the Trans-Alaska Pipeline authorization act in 1973, it included language imposing a strict

liability standard -- up to \$50 million -- for pollution caused by the permit-holder's (Alyeska's) activities. The language establishing this liability was extremely broad:

If any area within or without the right-of-way or permit area granted under this title is polluted by any activities conducted by or on behalf of the holder to whom such right-of-way or permit was granted, ...

In 1990, as part of the Oil Pollution Act (P.L. 101-380, 104 Stat. 484, this language was amended as follows:

If any area in the State of Alaska within or without the right-of-way or permit area granted under this title is polluted by any activities related to the Trans-Alaska Pipeline System, including operation of the terminal, conducted by or on behalf of the holder to whom such right-of-way or permit was granted,...

According to Rob Shoaf of Alyeska, the "in the State of Alaska" language was added to limit liability to waters within three miles of shore -- the state boundary. The implication that might be drawn from that amendment is that Congress intended for the permit-holder to be strictly liable for spills out to the three mile limit. If this is so, then Alyeska's role as a response action contractor for spills in Prince William Sound is truly unique; other response action contractors, such as CISPRI, have no such statutory liability.

Alyeska states that it believes its role in Prince William Sound is that of a volunteer -- that its provision of response services there is "strictly a matter of commercial contract" between Alyeska -- and not the TAPS carriers -- and shippers. Letter dated November 20, 1991, attached as Exhibit 3,

at 2. As such, it believes it needs no authority to require financial responsibility or insurance in connection with these services. Presumably, then, it believes its insurance requirements of shippers are not subject to review by FERC. If this is true, then it is difficult to understand why it is appropriate for the TAPS carriers to include the cost of these services in their tariff filings. If the enterprise is strictly Alyeska's, then logically Alyeska should charge for the services; they should not be paid for through the tariff.

Alyeska states that including the costs in the tariff "equitably distributes the costs of those services among their beneficiaries." *Id.* However, this is not precisely true; while most of the oil shipped out of Valdez does indeed belong to the same companies that are the TAPS carriers, some oil is shipped by non-owner companies. There is no theoretical connection between carrying the oil on TAPS and shipping out of Valdez; theoretically, all of the oil leaving Valdez could be shipped by non-owners companies. If this were the case, then including the costs for Prince William Sound protection in the tariff would not "equitably distribute" the costs among the beneficiaries. Alyeska states that the Prince William Sound "capabilities" are available in the event of a terminal spill at Valdez; in their view, this connection provides some justification for including the costs in the tariff.

Alyeska's approach seems theoretically inconsistent. On the one hand, if the response services are truly an enterprise taken on by Alyeska in which the owner companies are not involved,

then the costs of the services should not be borne by the owner companies, or passed on to the pipeline shippers through the tariff. Alyeska should probably charge shippers for the service (including those shippers who are also owner companies). Alyeska's position that its bonding (insurance) requirement does not require authority or regulatory review is consistent with this approach.

On the other hand, if the costs of marine spill protection in Prince William Sound appropriately belong in the tariff, then the costs are the owner companies' costs. In this case, all of the costs and requirements, including Alyeska's insurance (bonding) requirements would require regulatory authority and would be subject to review by the FERC. Its requirements then must be reasonably necessary and non-discriminatory.

III. COMPARATIVE SPILL COSTS: COOK INLET AND PRINCE WILLIAM SOUND

This section compares expenditures for spill response and preparedness in Cook Inlet (CISPRI) and Prince William Sound (Alyeska), and analyzes state participation in those expenditures. The comparison should be viewed with caution for a number of reasons. First, capital expenditures should be compared, but they are lump sum expenses, providing the basis for response for a number of years. Thus, they cannot readily be analyzed on a per barrel or other volume basis. Second, a per barrel analysis is only one way to look at the risk of a spill. Some would argue that the risk of a spill is more related to the number of voyages than barrels. Finally, while activities in Prince William Sound are limited to the transportation of crude oil, CISPRI provides

response capabilities for transportation of crude, transportation of refined product, and onshore and offshore production.

CISPRI assesses its members based upon a weighting of those activities; offshore production and tanker and barge transportation are given full volume weight while onshore production, pipelines and dock transfers are weighted at one tenth of their volume. See, CISPRI's Quarterly Cost Participation Percentages for 4th quarter 1990 and 1st quarter 1991, attached as Exhibit 4. Since their total costs cover all of these activities, and since CISPRI has apparently incorporated some view of the relative risk of each of these activities into its assessment methodology, it seems reasonable for the purpose of this analysis to use the volumes as weighted by CISPRI.

With these limitations in mind, the following analysis can provide an order-of-magnitude comparison.

	Cook Inlet	PWS
Equipment Expenses (total) ¹²	\$14	\$48.1
Operating Expenses (annual) ¹³	\$6	\$42.5
Volumes (mmbbl) ¹⁴	74.4	654.6

¹² Alyeska's "total" expenditures are those submitted by them for the period March 1989 through September, 1991. CISPRI's total was calculated by adding the total value of the equipment that is used as the basis for determining CISPRI's rental rates to members.

¹³ Alyeska's annual operating costs were determined by averaging the monthly cost for the period covered by their submission, and annualizing. CISPRI's monthly costs were estimated to be \$500,000 by Gene Burden of Tesoro, and by Linda White of CISPRI.

¹⁴ CISPRI's fourth quarter 1990 and first quarter 1990 weighted total volumes, annualized; TAPS throughput (DNR report).

Comparing operating expenses with volumes, it can be seen that CISPRI spends \$.081 per weighted barrel in operating costs while Alyeska spends about \$.065 per barrel. On a volume basis, CISPRI's operating costs are 125% of those of Alyeska. When total equipment costs are compared to annual volume, CISPRI'S ratio is \$.188 per barrel, while Alyeska's ratio is \$.073 per barrel. CISPRI's ratio is 275% that of Alyeska.

As set out above, the state effectively pays one quarter of Alyeska's expenditures, since all (100%) of Alyeska's expenditures go into TAPS tariffs. In Cook Inlet, only part of the activity covered by CISPRI affects wellhead value calculations. Further, the severance tax rate is reduced to zero by the Economic Limit Factor in all Cook Inlet fields. Thus, only royalties are affected by spill response expenditures in Cook Inlet. The average per barrel royalty in Cook Inlet is 12.3%. Table I.

Total production in Cook Inlet is about 11.2 million barrels annually. Table I. Since CISPRI's activities cover both production and tanker transportation, we can assume that each barrel is counted twice in CISPRI's assessment methodology, once when it is produced and again when it is transported. Thus, of the 74.4 million weighted barrels, 22.4 -- or about 30% -- would be production or crude transportation barrels, the spill-protection costs of which would be deducted in arriving at wellhead value for royalty purposes.

We can adjust the costs for Cook Inlet and Prince William Sound to reflect these costs net of state participation. Thus,

Alyeska's costs are reduced by 25% (100% X 25%), while CISPRI's costs are reduced by 30% of the average royalty of 12.3%, or 3.7%. Reducing the costs in the table above by these percentages produces the following table:

	Cook Inlet	PWS
Equipment Expenses (total)	\$13.5	\$36.1
Operating Expenses (annual)	\$5.8	\$31.9
Volumes (mmbbl)	74.4	654.6

Now, comparing operating expenses net of state participation, CISPRI spends \$.078 per barrel, while Alyeska spends \$.049. The ratio of equipment costs to volume is \$.181 for CISPRI and \$.055 for Alyeska. When state participation is netted out, CISPRI's operating expenses are 159% of those of Alyeska, and its equipment-to-volume ratio is 329% that of Alyeska.

Two conclusions can be drawn from this analysis. First, CISPRI, presumably because of its lower volume, spends significantly more on a volume basis for spill protection in Cook Inlet than does Alyeska in Prince William Sound. Second, when the state's participation in these expenditures is factored in, the difference becomes much greater.

TABLE I

SUMMARY OF ROYALTY INTERESTS AND TAX RATES BY FIELD
OIL

	<u>Royalty</u>	<u>Average Severance Tax Rate</u>	<u>Production (MM Barrels) 1990</u>
NORTH SLOPE			
Endicott	25.9% @ 20.0% 74.1% @ 12.5%	9.5%	37.7
Kuparuk	12.5%	13.2%	107.2
Lisburne	12.5%	0.1%	14.5
Milne Point	78.4% @ 20.0% 21.6% @ 12.5%	0.0%	6.6
Prudhoe Bay	12.5%	14.9%	<u>470.1</u>
Total North Slope			636.1
Average North Slope	12.7%	12.1%*	
COOK INLET			
Beaver Creek	11.25%**	0.0%	.2
Granite Point	12.5%	0.0%	1.5
McArthur River	12.5%	0.0%	4.3
Middle Ground Shoal	12.5%	0.0%	2.7
Swanson River	11.25%**	0.0%	1.9
Trading Bay	12.5%	0.0%	<u>.6</u>
Total Cook Inlet			11.1
Average Cook Inlet	12.3%	0.0%	
TOTAL STATE			647.3
AVERAGE STATE	12.7%	11.9%*	

* The tax rates shown for each field are the nominal rate reduced by the Economic Limit Factor. The tax does not apply to royalty barrels. The average rate shows the effective rate for all production, including royalty.

** Beaver Creek and Swanson River are federal leases, carrying a royalty obligation of 12.5%. The State receives 90% of this royalty, or 11.25%.

Sources: Department of Natural Resources, "Historical and Projected Oil and Gas Consumption", June, 1991; Department of Revenue, Dr. Charles Logsdon.

OIL SPILL RELATED EXPENSES*
(IN MILLIONS)
MARCH 1989 THROUGH SEPTEMBER 1991

	<u>PROJECTS</u>	<u>O & M EXPENSE</u>	<u>TOTAL</u>
TERMINAL			
1989	0	14.6	14.6
1990	1.1	6.1	7.2
1991 YEAR TO DATE	1.7	2.5	4.2
TOTAL TERMINAL	<u>2.8</u>	<u>23.2</u>	<u>26</u>
PRINCE WM SOUND			
1989	17.7	29.8	47.5
1990	17.8	48.1	65.9
1991 YEAR TO DATE	12.6	31.9	44.5
TOTAL PWS	<u>48.1</u>	<u>109.8</u>	<u>157.9</u>
PIPELINE			
1989	0	0	0
1990	1.4	0.6	2
1991 YEAR TO DATE	18.8	3.6	22.4
TOTAL PIPELINE	<u>20.2</u>	<u>4.2</u>	<u>24.4</u>
TOTAL ACTUAL	<u>71.1</u>	<u>137.2</u>	<u>208.3</u>
*NOTE: Does not include legal expenses.			
SUMMARY BY YEAR			
1989	17.7	44.4	62.1
1990	20.3	54.8	75.1
1991 YEAR TO DATE	33.1	38	71.1
TOTAL ACTUAL	<u>71.1</u>	<u>137.2</u>	<u>208.3</u>
EST. FUTURE COST			
10/91 - 12/97	90	310	400
TOTAL ACTUAL & EST	<u>161.1</u>	<u>447.2</u>	<u>608.3</u>

Exh. 1 - 1

**OIL SPILL RELATED EXPENSES
(IN MILLIONS)
FUTURE YEARS PROJECTION**

	<u>PROJECTS</u>	<u>O & M EXPENSE</u>	<u>TOTAL</u>
EST. REMAINING 1991	14.3	13.2	27.5
1992	23.9		23.9
1993-1997	51.8		51.8
EST PER LONG RANGE PLAN:			
1992		56.3	56.3
1993-1997		240.5	240.5
TOTAL EST. COST	<u>90</u>	<u>310</u>	<u>400</u>

Exh. 1-2

HORST & FRISCH

1000 CONNECTICUT AVENUE NW, SUITE 400
WASHINGTON, DC 20036

TELEPHONE 202/296-4005 FAX 202/296-4008

November 5, 1991

Ms. Deborah Vogt
P.O. Box 1065
Juneau, AK 99802

Dear Deborah:

Enclosed please find an analysis of the State revenue impact of actual (March 1989 through September 1991) and projected (October 1991 through December 1997) oil spill related capital and operating expenditures. The net present value of this impact, computed as of January 1, 1992, is \$154.1 million.

Oil spill related operating expenditures directly affect tariff rates in the year in which they are incurred. On the other hand, oil spill related capital expenditures affect tariff rates over time through the following cost of service elements: (1) depreciation, (2) recovery of deferred return, (3) after-tax margin, and (4) income tax allowance.

The enclosed bar charts reflect (1) the actual State revenue impact of these expenditures through 2011 and (2) the net present value of these amounts through 2011 computed as of January 1, 1992.

Please let me know if you have any questions concerning the methodology employed or the assumptions utilized in this analysis.

Sincerely,

Kenneth A. Timbers

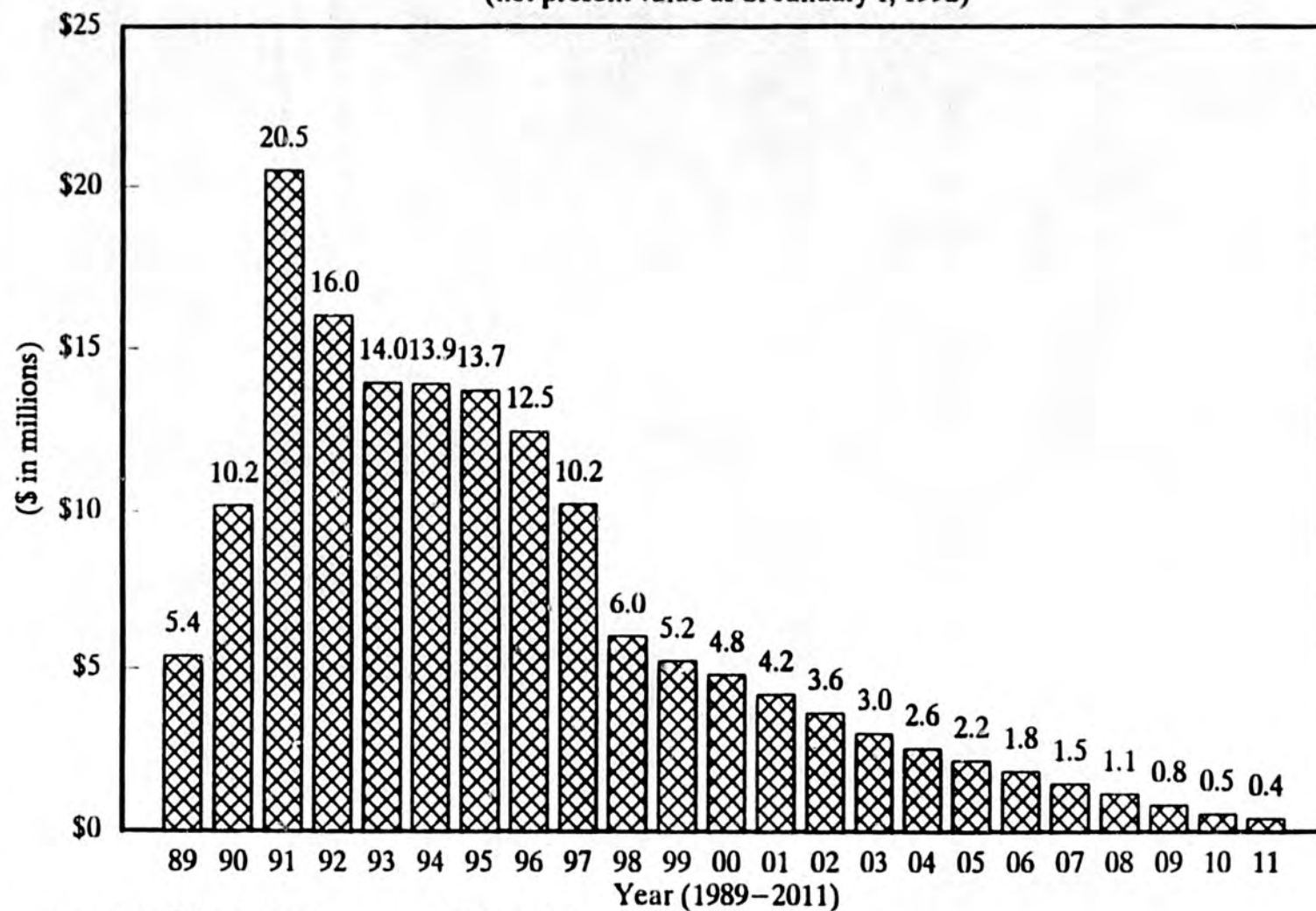
Kenneth A. Timbers

encl.

cc: Robert Loeffler, Morrison & Foerster

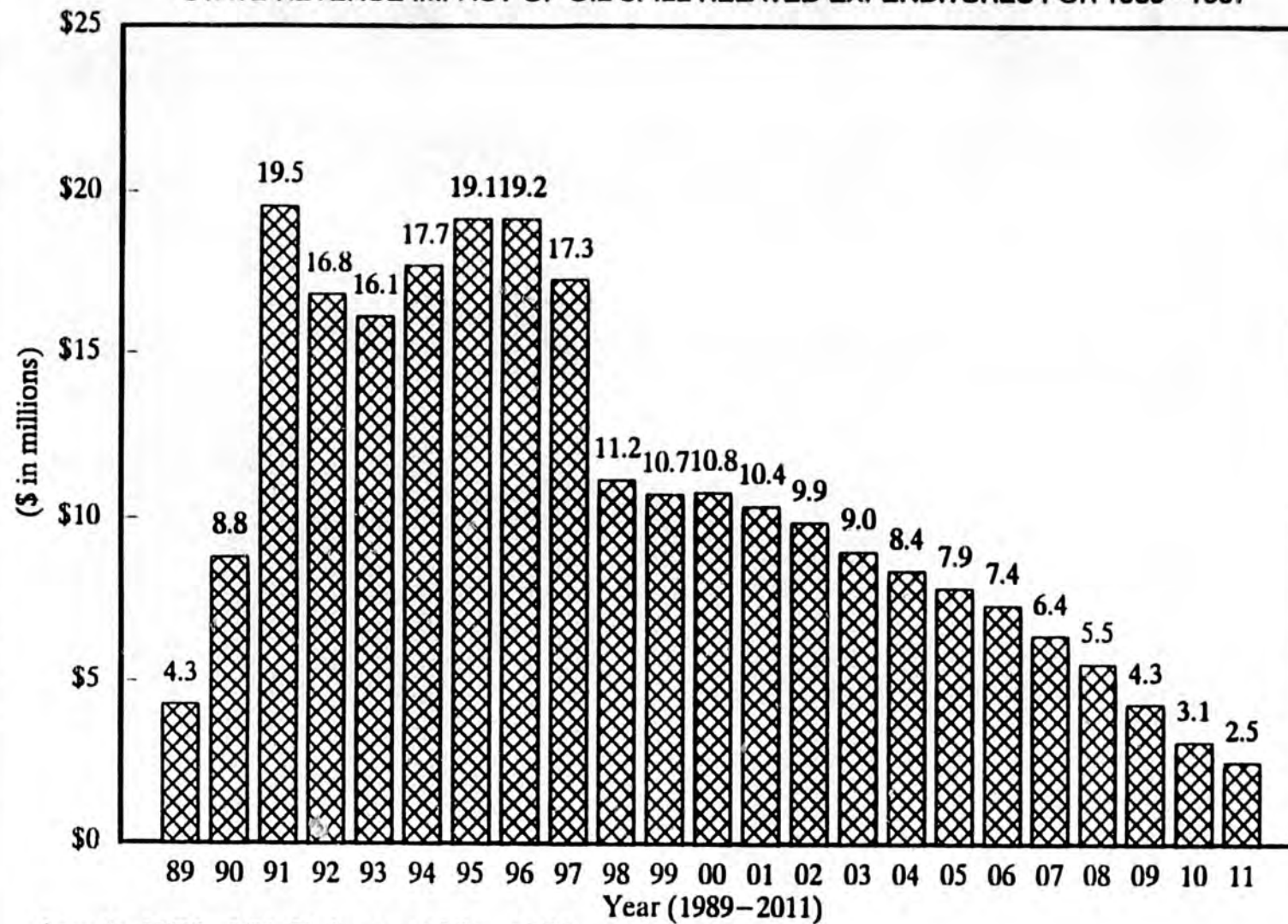
Exh 2

STATE REVENUE IMPACT OF OIL SPILL RELATED EXPENDITURES FOR 1989–1997
 (net present value as of January 1, 1992)



Actuals: 10/89–9/91; Estimates: 10/91–12/97
 Horst & Frisch, November 4, 1991

STATE REVENUE IMPACT OF OIL SPILL RELATED EXPENDITURES FOR 1989-1997



Actuals: 10/89-9/91; Estimates: 10/91-12/97
 Horst & Frisch, November 4, 1991

TABLE 1: OIL SPILL RELATED EXPENDITURES (1989-1997) (\$M)

Horst & Frisch
11/04/91

	1989	1990	1991	1992	1993	1994	1995	1996	1997
ACTUALS (3/89-9/91)									
Terminal Expenditures									
Projects	\$0.0	\$1.1	\$1.7						
Operations & Maintenance	14.6	6.1	2.5						
Prince William Sound Expenditures									
Projects	17.7	17.8	12.6						
Operations & Maintenance	29.8	48.1	31.9						
Pipeline Expenditures									
Projects	0.0	1.4	18.8						
Operations & Maintenance	0.0	0.6	3.6						
ESTIMATES (10/91-12/97)									
Projects	0.0	0.0	14.3	23.9	10.36	10.36	10.36	10.36	10.36
Operations & Maintenance	0.0	0.0	13.2	56.3	48.1	48.1	48.1	48.1	48.1
TOTAL PROJECTS	17.7	20.3	47.4	23.9	10.4	10.4	10.4	10.4	10.4
TOTAL OPERATIONS & MAINTENANCE	44.4	54.8	51.2	56.3	48.1	48.1	48.1	48.1	48.1
TOTAL EXPENDITURES	62.1	75.1	98.6	80.2	58.5	58.5	58.5	58.5	58.5

Source: Alyeska figures per 10/30/91 fax from Tina Kobayashi

TABLE 2: STATE REVENUE IMPACT OF OIL SPILL
RELATED EXPENDITURES (\$M)

Horst & Frisch
11/04/91

	1989	1990	1991	1992	1993	1994	1995	1996	1997
1 Oil Spill Related Operating Expenditures	\$17.7	\$20.3	\$47.4	\$23.9	\$10.4	\$10.4	\$10.4	\$10.4	\$10.4
2 Oil Spill Related Capital Expenditures	44.4	54.8	51.2	56.3	48.1	48.1	48.1	48.1	48.1
DEPRECIATION									
3 Additions to Depreciable Property	44.4	54.8	51.2	56.3	48.1	48.1	48.1	48.1	48.1
4 Depreciation Factors		21.46%	22.61%	23.45%	23.69%	24.28%	25.36%	24.31%	19.56%
5 Depreciation Base		44.4	89.7	120.6	148.6	161.5	170.4	175.3	180.8
6 Depreciation		9.5	20.3	28.3	35.2	39.2	43.2	42.6	35.4
7 Depreciable Property Balance at Year End	44.4	89.7	120.6	148.6	161.5	170.4	175.3	180.8	193.5
ACCUMULATED DEFERRED INCOME TAX									
8 State ADIT - EoY	(0.2)	(0.1)	0.6	1.5	2.7	3.9	5.2	6.1	6.0
9 Federal ADIT - EoY	(0.7)	0.1	2.9	6.8	11.8	17.1	22.9	27.6	30.1
10 Total ADIT - EoY	(0.9)	0.1	3.5	8.3	14.5	21.0	28.0	33.7	36.1
RECOVERY OF DEFERRED RETURN									
11 Deferred Return Base		0.0	1.9	4.9	7.6	10.6	13.2	15.3	17.4
12 Deferred Return Factors		21.46%	22.61%	23.45%	23.69%	24.28%	25.36%	24.31%	19.56%
13 Recovery of Deferred Return		0.0	0.4	1.1	1.8	2.6	3.3	3.7	3.4
14 Inflation Adjustment Base		34.9	70.8	96.1	119.2	130.3	137.0	144.3	159.4
15 Inflation Rate		5.34%	4.88%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
16 Inflation Adjustment		1.9	3.5	3.8	4.8	5.2	5.5	5.8	6.4
17 Deferred Return at Year End	0.0	1.9	4.9	7.6	10.6	13.2	15.3	17.4	20.4
AFTER-TAX MARGIN									
18 Depreciable Property Balance at Year End	44.4	89.7	120.6	148.6	161.5	170.4	175.3	180.8	193.5
19 Deferred Return at Year End	0.0	1.9	4.9	7.6	10.6	13.2	15.3	17.4	20.4
20 Total ADIT - EoY	(0.9)	0.1	3.5	8.3	14.5	21.0	28.0	33.7	36.1
21 Rate Base at Year End	45.3	91.5	122.0	147.9	157.6	162.6	162.6	164.5	177.8
22 Rate of Return on Rate Base		6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
23 After-Tax Margin		2.9	5.9	7.8	9.5	10.1	10.4	10.4	10.5
INCOME TAX ALLOWANCE									
24 Income Tax Base		2.9	6.3	9.0	11.3	12.6	13.8	14.1	13.9
25 State Income Tax Rate		9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
26 Federal Income Tax Rate		34%	34%	34%	34%	34%	34%	34%	34%
27 Combined Rate of Tax		40.2%	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%
28 Income Tax Allowance Factor		0.672	0.672	0.672	0.672	0.672	0.672	0.672	0.672
29 Income Tax Allowance		1.9	4.2	6.0	7.6	8.5	9.2	9.5	9.4
COST OF SERVICE									
30 Operating Expenditures	17.7	20.3	47.4	23.9	10.4	10.4	10.4	10.4	10.4
31 Depreciation		9.5	20.3	28.3	35.2	39.2	43.2	42.6	35.4
32 Recovery of Deferred Return		0.0	0.4	1.1	1.8	2.6	3.3	3.7	3.4
33 After-Tax Margin		2.9	5.9	7.8	9.5	10.1	10.4	10.4	10.5
34 Income Tax Allowance		1.9	4.2	6.0	7.6	8.5	9.2	9.5	9.4
35 Total Cost of Service Effect	17.7	34.7	78.2	67.2	64.4	70.7	76.6	76.6	69.0
36 State Revenue Impact - % [1]	24.03%	25.44%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
37 State Revenue Impact	4.3	8.8	19.5	16.8	16.1	17.7	19.1	19.2	17.3
38 Interest Rate	10%	10%	10%	10%	10%	10%	10%	10%	10%
39 Discount Period	-2.5	-1.5	-0.5	0.5	1.5	2.5	3.5	4.5	5.5
40 Net Present Value Factor	1.27	1.15	1.05	0.95	0.87	0.79	0.72	0.65	0.59
41 Net Present Value (1/1/92)	5.4	10.2	20.5	16.0	14.0	13.9	13.7	12.5	10.2
42 NPV of State Revenue Impact	\$154.1 *****								

[1] Weighted average production and royalty rates for all crudes for 1989 and 1990; 1991-2011 set equal to 25 percent.

TABLE 2: STATE REVENUE IMPACT OF OIL SPILL
RELATED EXPENDITURES (\$M)

Horst & Frisch
11/04/91

	1998	1999	2000	2001	2002	2003	2004	2005	2006
1 Oil Spill Related Operating Expenditures	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2 Oil Spill Related Capital Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DEPRECIATION									
3 Additions to Depreciable Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Depreciation Factors	11.26%	11.82%	13.49%	14.74%	16.19%	17.06%	18.82%	21.41%	25.25%
5 Depreciation Base	193.5	171.7	151.4	131.0	111.7	93.6	77.6	63.0	49.5
6 Depreciation	21.8	20.3	20.4	19.3	18.1	16.0	14.6	13.5	12.5
7 Depreciable Property Balance at Year End	171.7	151.4	131.0	111.7	93.6	77.6	63.0	49.5	37.0
ACCUMULATED DEFERRED INCOME TAX									
8 State ADIT - EoY	4.7	3.5	2.6	1.8	1.2	0.7	0.3	(0.0)	(0.1)
9 Federal ADIT - EoY	29.0	27.8	26.8	25.6	23.9	21.5	19.1	17.2	16.0
10 Total ADIT - EoY	33.7	31.3	29.4	27.4	25.2	22.2	19.3	17.2	15.8
RECOVERY OF DEFERRED RETURN									
11 Deferred Return Base	20.4	25.7	29.6	31.9	32.7	32.3	30.9	28.6	25.4
12 Deferred Return Factors	11.26%	11.82%	13.49%	14.74%	16.19%	17.06%	18.82%	21.41%	25.25%
13 Recovery of Deferred Return	2.3	3.0	4.0	4.7	5.3	5.5	5.8	6.1	6.4
14 Inflation Adjustment Base	189.8	174.1	156.6	138.8	121.0	104.4	88.1	72.0	56.0
15 Inflation Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
16 Inflation Adjustment	7.6	7.0	6.3	5.6	4.8	4.2	3.5	2.9	2.2
17 Deferred Return at Year End	25.7	29.6	31.9	32.7	32.3	30.9	28.6	25.4	21.2
AFTER-TAX MARGIN									
18 Depreciable Property Balance at Year End	171.7	151.4	131.0	111.7	93.6	77.6	63.0	49.5	37.0
19 Deferred Return at Year End	25.7	29.6	31.9	32.7	32.3	30.9	28.6	25.4	21.2
20 Total ADIT - EoY	33.7	31.3	29.4	27.4	25.2	22.2	19.3	17.2	15.8
21 Rate Base at Year End	163.7	149.7	133.4	117.0	100.7	86.4	72.3	57.7	42.4
22 Rate of Return on Rate Base	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
23 After-Tax Margin	11.4	10.5	9.6	8.5	7.5	6.4	5.5	4.6	3.7
INCOME TAX ALLOWANCE									
24 Income Tax Base	13.7	13.5	13.6	13.2	12.8	12.0	11.3	10.8	10.1
25 State Income Tax Rate	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%
26 Federal Income Tax Rate	34%	34%	34%	34%	34%	34%	34%	34%	34%
27 Combined Rate of Tax	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%	40.2%
28 Income Tax Allowance Factor	0.672	0.672	0.672	0.672	0.672	0.672	0.672	0.672	0.672
29 Income Tax Allowance	9.2	9.1	9.1	8.9	8.6	8.0	7.6	7.2	6.8
COST OF SERVICE									
30 Operating Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
31 Depreciation	21.8	20.3	20.4	19.3	18.1	16.0	14.6	13.5	12.5
32 Recovery of Deferred Return	2.3	3.0	4.0	4.7	5.3	5.5	5.8	6.1	6.4
33 After-Tax Margin	11.4	10.5	9.6	8.5	7.5	6.4	5.5	4.6	3.7
34 Income Tax Allowance	9.2	9.1	9.1	8.9	8.6	8.0	7.6	7.2	6.8
35 Total Cost of Service Effect	44.7	42.9	43.1	41.5	39.5	36.0	33.6	31.5	29.4
36 State Revenue Impact - % [1]	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
37 State Revenue Impact	11.2	10.7	10.8	10.4	9.9	9.0	8.4	7.9	7.4
38 Interest Rate	10%	10%	10%	10%	10%	10%	10%	10%	10%
39 Discount Period	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5
40 Net Present Value Factor	0.54	0.49	0.44	0.40	0.37	0.33	0.30	0.28	0.25
41 Net Present Value (1/1/92)	6.0	5.2	4.8	4.2	3.6	3.0	2.6	2.2	1.8
42 NPV of State Revenue Impact	\$154.1 =====								

[1] Weighted average production and royalty rates for all crudes for 1989 and 1990; 1991-2011 set equal to 25 percent.

TABLE 2: STATE REVENUE IMPACT OF OIL SPILL
RELATED EXPENDITURES (\$M)

Horst & Frisch
11/04/91

	2007	2008	2009	2010	2011	Explanation
1 Oil Spill Related Operating Expenditures	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	See Table 1
2 Oil Spill Related Capital Expenditures	0.0	0.0	0.0	0.0	0.0	See Table 1
DEPRECIATION						
3 Additions to Depreciable Property	0.0	0.0	0.0	0.0	0.0	Line 2
4 Depreciation Factors	29.10%	35.38%	42.34%	54.43%	100.00%	Per TSM
5 Depreciation Base	37.0	26.2	17.0	9.8	4.5	Previous Line 7
6 Depreciation	10.8	9.3	7.2	5.3	4.5	Line 4 x Line 5
7 Depreciable Property Balance at Year End	26.2	17.0	9.8	4.5	0.0	Line 3 + Line 5 - Line 6
ACCUMULATED DEFERRED INCOME TAX						
8 State ADIT - EoY	(0.1)	(0.0)	0.1	0.1	0.0	TABLE 3: Line 28
9 Federal ADIT - EoY	15.2	14.9	14.9	15.3	(0.0)	TABLE 3: Line 57
10 Total ADIT - EoY	15.1	14.9	15.0	15.4	(0.0)	Line 8 + Line 9
RECOVERY OF DEFERRED RETURN						
11 Deferred Return Base	21.2	16.7	11.9	7.5	3.7	Previous Line 17
12 Deferred Return Factors	29.10%	35.38%	42.34%	54.43%	100.00%	Line 4
13 Recovery of Deferred Return	6.2	5.9	5.0	4.1	3.7	Line 11 x Line 12
14 Inflation Adjustment Base	41.3	27.8	16.6	7.9	0.0	Pr.Line 17+Pr.Line 7-Line 13-Line 6
15 Inflation Rate	4.00%	4.00%	4.00%	4.00%	4.00%	Inflation Rate
16 Inflation Adjustment	1.7	1.1	0.7	0.3	0.0	Line 14 x Line 15
17 Deferred Return at Year End	16.7	11.9	7.5	3.7	0.0	Prev. Line 17 - Line 13 + Line 16
AFTER-TAX MARGIN						
18 Depreciable Property Balance at Year End	26.2	17.0	9.8	4.5	0.0	Line 7
19 Deferred Return at Year End	16.7	11.9	7.5	3.7	0.0	Line 17
20 Total ADIT - EoY	15.1	14.9	15.0	15.4	(0.0)	Line 10
21 Rate Base at Year End	27.9	14.0	2.3	-7.2	0.0	Line 18 + Line 19 - Line 20
22 Rate of Return on Rate Base	6.4%	6.4%	6.4%	6.4%	6.4%	Per TSM
23 After-Tax Margin	2.7	1.8	0.9	0.1	(0.5)	Previous Line 21 x Line 22
INCOME TAX ALLOWANCE						
24 Income Tax Base	8.9	7.7	5.9	4.2	3.3	Line 23 + Line 13
25 State Income Tax Rate	9.4%	9.4%	9.4%	9.4%	9.4%	State Income Tax Rate
26 Federal Income Tax Rate	34%	34%	34%	34%	34%	Federal Income Tax Rate
27 Combined Rate of Tax	40.2%	40.2%	40.2%	40.2%	40.2%	Line 25 + Line 26 x (1 - Line 25)
28 Income Tax Allowance Factor	0.672	0.672	0.672	0.672	0.672	Line 27/(1 - Line 27)
29 Income Tax Allowance	6.0	5.2	4.0	2.9	2.2	Line 24 x Line 28
COST OF SERVICE						
30 Operating Expenditures	0.0	0.0	0.0	0.0	0.0	Line 1
31 Depreciation	10.8	9.3	7.2	5.3	4.5	Line 6
32 Recovery of Deferred Return	6.2	5.9	5.0	4.1	3.7	Line 13
33 After-Tax Margin	2.7	1.8	0.9	0.1	(0.5)	Line 23
34 Income Tax Allowance	6.0	5.2	4.0	2.9	2.2	Line 29
35 Total Cost of Service Effect	25.6	22.1	17.1	12.4	9.9	Sum of Lines 30 thru 34
36 State Revenue Impact - % [1]	25.00%	25.00%	25.00%	25.00%	25.00%	Assumption
37 State Revenue Impact	6.4	5.5	4.3	3.1	2.5	Line 35 x Line 36
38 Interest Rate	10%	10%	10%	10%	10%	Assumption
39 Discount Period	15.5	16.5	17.5	18.5	19.5	Discounting to 1/1/92
40 Net Present Value Factor	0.23	0.21	0.19	0.17	0.16	Previous Line 40/(1 - Line 38)
41 Net Present Value (1/1/92)	1.5	1.1	0.8	0.5	0.4	Line 37 x Line 40
42 NPV of State Revenue Impact	\$154.1					Sum of Line 41

[1] Weighted average production and royalty rates for all crudes for 1989 and 1990; 1991-2011 set equal to 25 percent.

TABLE 3: ADIT CALCULATION

		FACTORS	1989	1990	1991	1992	1993	1994	1995	1996	1997
STATE ADIT											
1	Additions to Depreciable Property		44.4	54.8	51.2	56.3	48.1	48.1	48.1	48.1	48.1
2	1989	5.7143%	2.5								
3	1990	10.7755%	4.8	3.1							
4	1991	9.8247%	4.4	5.9	2.9						
5	1992	9.2107%	4.1	5.4	5.5	3.2					
6	1993	8.5966%	3.8	5.0	5.0	6.1	2.7				
7	1994	7.9826%	3.5	4.7	4.7	5.5	5.2				
8	1995	7.3685%	3.3	4.4	4.4	5.2	4.7	2.7			
9	1996	6.7545%	3.0	4.0	4.1	4.8	4.4	4.7	5.2	2.7	
10	1997	6.1405%	2.7	3.7	3.8	4.5	4.1	4.4	4.7	5.2	2.7
11	1998	5.5264%	2.5	3.4	3.5	4.1	3.8	4.1	4.4	4.7	5.2
12	1999	4.9124%	2.2	3.0	3.1	3.8	3.5	3.8	4.1	4.4	4.7
13	2000	4.2983%	1.9	2.7	2.8	3.5	3.2	3.5	3.8	4.1	4.4
14	2001	3.6843%	1.6	2.4	2.5	3.1	3.0	3.2	3.5	3.8	4.1
15	2002	3.0702%	1.4	2.0	2.2	2.8	2.7	3.0	3.2	3.5	3.8
16	2003	2.4562%	1.1	1.7	1.9	2.4	2.4	2.7	3.0	3.2	3.5
17	2004	1.8421%	0.8	1.3	1.6	2.1	2.1	2.4	2.7	3.0	3.2
18	2005	1.2281%	0.5	1.0	1.3	1.7	1.8	2.1	2.4	2.7	3.0
19	2006	0.6141%	0.3	0.7	0.9	1.4	1.5	1.8	2.1	2.4	2.7
20	2007			0.3	0.6	1.0	1.2	1.5	1.8	2.1	2.4
21	2008				0.3	0.7	0.9	1.2	1.5	1.8	2.1
22	2009					0.3	0.6	0.9	1.2	1.5	1.8
23	2010						0.3	0.6	0.9	1.2	1.5
			1989	1990	1991	1992	1993	1994	1995	1996	1997
24	State Tax Depreciation		2.5	7.9	13.2	18.2	22.7	26.4	29.9	33.1	35.9
25	Depreciation		0.0	9.5	20.3	28.3	35.2	39.2	43.2	42.6	35.4
26	State Timing Difference		(2.5)	1.6	7.1	10.1	12.5	12.8	13.3	9.6	(0.6)
27	Cumulative Timing Difference		(2.5)	(0.9)	6.2	16.2	28.7	41.5	54.8	64.4	63.8
28	State ADIT - EoY	9.4%	(0.2)	(0.1)	0.6	1.5	2.7	3.9	5.2	6.1	6.0
FEDERAL ADIT											
29	Additions to Depreciable Property		44.4	54.8	51.2	56.3	48.1	48.1	48.1	48.1	48.1
30	1989	5.0000%	2.2								
31	1990	9.5000%	4.2	2.7							
32	1991	8.5500%	3.8	5.2	2.6						
33	1992	7.6950%	3.4	4.7	4.9	2.8					
34	1993	6.9255%	3.1	4.2	4.4	5.3	2.4				
35	1994	6.2330%	2.8	3.8	3.9	4.8	4.6	2.4			
36	1995	5.9049%	2.6	3.4	3.5	4.3	4.1	4.6	2.4		
37	1996	5.9049%	2.6	3.2	3.2	3.9	3.7	4.1	4.6	2.4	
38	1997	5.9049%	2.6	3.2	3.0	3.5	3.3	3.7	4.1	4.6	2.4
39	1998	5.9049%	2.6	3.2	3.0	3.3	3.0	3.3	3.7	4.1	4.6
40	1999	5.9049%	2.6	3.2	3.0	3.3	2.8	3.0	3.3	3.7	4.1
41	2000	5.9049%	2.6	3.2	3.0	3.3	2.8	2.8	3.0	3.3	3.7
42	2001	5.9049%	2.6	3.2	3.0	3.3	2.8	2.8	2.8	3.0	3.3
43	2002	5.9049%	2.6	3.2	3.0	3.3	2.8	2.8	2.8	2.8	3.0
44	2003	5.9049%	2.6	3.2	3.0	3.3	2.8	2.8	2.8	2.8	2.8
45	2004	2.9525%	1.3	3.2	3.0	3.3	2.8	2.8	2.8	2.8	2.8
46	2005		0.0	1.6	3.0	3.3	2.8	2.8	2.8	2.8	2.8
47	2006		0.0	0.0	1.5	3.3	2.8	2.8	2.8	2.8	2.8
48	2007			0.0	0.0	1.7	2.8	2.8	2.8	2.8	2.8
49	2008				0.0	0.0	1.4	2.8	2.8	2.8	2.8
50	2009					0.0	0.0	1.4	2.8	2.8	2.8
51	2010						0.0	0.0	1.4	2.8	2.8
			1989	1990	1991	1992	1993	1994	1995	1996	1997
52	Federal Tax Depreciation		2.2	7.0	11.6	15.8	19.4	22.3	25.0	27.7	28.1
53	Depreciation		0.0	9.5	20.3	28.3	35.2	39.2	43.2	42.6	35.4
54	Federal Timing Difference		(2.2)	2.6	8.7	12.5	15.8	16.9	18.2	14.9	7.3
55	State Tax Effect	9.4%	0.2	(0.2)	(0.7)	(0.9)	(1.2)	(1.2)	(1.3)	(0.9)	0.1
56	Cumulative Timing Difference		(2.0)	0.4	8.5	20.0	34.7	50.4	67.3	81.3	88.6
57	Federal ADIT - EoY	34%	(0.7)	0.1	2.9	6.8	11.8	17.1	22.9	27.6	30.1
58	Total ADIT - EoY		(0.9)	0.1	3.5	8.3	14.5	21.0	28.0	33.7	36.1

TABLE 3: ADIT CALCULATION

STATE ADIT				FACTORS Total									
1	Additions to Depreciable Property		447.2										
2		1989	5.7143%	2.5									
3		1990	10.7755%	7.9									
4		1991	9.8247%	13.2									
5		1992	9.2107%	18.2									
6		1993	8.5966%	22.7									
7		1994	7.9826%	26.4									
8		1995	7.3685%	29.9									
9		1996	6.7545%	33.1									
10		1997	6.1405%	35.9									
11		1998	5.5264%	35.7									
12		1999	4.9124%	32.8									
13		2000	4.2983%	30.1									
14		2001	3.6843%	27.3									
15		2002	3.0702%	24.6									
16		2003	2.4562%	21.8									
17		2004	1.8421%	19.1									
18		2005	1.2281%	16.4									
19		2006	0.6141%	13.6									
20		2007		10.9									
21		2008		8.4									
22		2009		6.3									
23		2010		4.4									
				1998	1999	2000	2001	2002	2003	2004	2005	2006	
24	State Tax Depreciation		35.7	32.8	30.1	27.3	24.6	21.8	19.1	16.4	13.6		
25	Depreciation		21.8	20.3	20.4	19.3	18.1	16.0	14.6	13.5	12.5		
26	State Timing Difference		(13.9)	(12.5)	(9.7)	(8.0)	(6.5)	(5.9)	(4.5)	(2.9)	(1.1)		
27	Cumulative Timing Difference		49.9	37.3	27.7	19.7	13.2	7.3	2.8	(0.1)	(1.2)		
28	State ADIT - EoY	9.4%	4.7	3.5	2.6	1.8	1.2	0.7	0.3	(0.0)	(0.1)		
FEDERAL ADIT													
29	Additions to Depreciable Property		399.1										
30		1989	5.0000%	2.2									
31		1990	9.5000%	7.0									
32		1991	8.5500%	11.6									
33		1992	7.6950%	15.8									
34		1993	6.9255%	19.4									
35		1994	6.2330%	22.3									
36		1995	5.9049%	25.0									
37		1996	5.9049%	27.7									
38		1997	5.9049%	28.1									
39		1998	5.9049%	26.3									
40		1999	5.9049%	25.1									
41		2000	5.9049%	24.2									
42		2001	5.9049%	23.7									
43		2002	5.9049%	23.6									
44		2003	5.9049%	23.6									
45		2004	2.9525%	22.3									
46		2005		19.3									
47		2006		16.2									
48		2007		13.0									
49		2008		9.9									
50		2009		7.1									
51		2010		4.3									
				1998	1999	2000	2001	2002	2003	2004	2005	2006	
52	Federal Tax Depreciation		26.3	25.1	24.2	23.7	23.6	23.6	22.3	19.3	16.2		
53	Depreciation		21.8	20.3	20.4	19.3	18.1	16.0	14.6	13.5	12.5		
54	Federal Timing Difference		(4.6)	(4.8)	(3.8)	(4.4)	(5.5)	(7.6)	(7.6)	(5.8)	(3.7)		
55	State Tax Effect	9.4%	1.3	1.2	0.9	0.8	0.6	0.6	0.4	0.3	0.1		
56	Cumulative Timing Difference		85.4	81.8	78.9	75.2	70.4	63.3	56.1	50.5	46.9		
57	Federal ADIT - EoY	34%	29.0	27.8	26.8	25.6	23.9	21.5	19.1	17.2	16.0		
58	Total ADIT - EoY		33.7	31.3	29.4	27.4	25.2	22.2	19.3	17.2	15.8		

TABLE 3: ADIT CALCULATION

STATE ADIT		FACTORS				
1 Additions to Depreciable Property						
2	1989	5.7143%				
3	1990	10.7755%				
4	1991	9.8247%				
5	1992	9.2107%				
6	1993	8.5966%				
7	1994	7.9826%				
8	1995	7.3685%				
9	1996	6.7545%				
10	1997	6.1405%				
11	1998	5.5264%				
12	1999	4.9124%				
13	2000	4.2983%				
14	2001	3.6843%				
15	2002	3.0702%				
16	2003	2.4562%				
17	2004	1.8421%				
18	2005	1.2281%				
19	2006	0.6141%				
20	2007					
21	2008					
22	2009					
23	2010					
			2007	2008	2009	2010
24 State Tax Depreciation			10.9	8.4	6.3	4.4
25 Depreciation			10.8	9.3	7.2	5.3
26 State Timing Difference			(0.1)	0.9	0.9	0.9
27 Cumulative Timing Difference			(1.3)	(0.4)	0.6	1.4
28 State ADIT - EoY	9.4%		(0.1)	(0.0)	0.1	0.1
						2011
						5.9
						4.5
						(1.4)
						0.0
						0.0
FEDERAL ADIT						
29 Additions to Depreciable Property						
30	1989	5.0000%				
31	1990	9.5000%				
32	1991	8.5500%				
33	1992	7.6950%				
34	1993	5.9255%				
35	1994	6.2330%				
36	1995	5.9049%				
37	1996	5.9049%				
38	1997	5.9049%				
39	1998	5.9049%				
40	1999	5.9049%				
41	2000	5.9049%				
42	2001	5.9049%				
43	2002	5.9049%				
44	2003	5.9049%				
45	2004	2.9525%				
46	2005					
47	2006					
48	2007					
49	2008					
50	2009					
51	2010					
			2007	2008	2009	2010
52 Federal Tax Depreciation			13.0	9.9	7.1	4.3
53 Depreciation			10.8	9.3	7.2	5.3
54 Federal Timing Difference			(2.3)	(0.7)	0.1	1.1
55 State Tax Effect	9.4%		0.0	(0.1)	(0.1)	(0.1)
56 Cumulative Timing Difference			44.7	44.0	43.9	44.9
57 Federal ADIT - EoY	34%		15.2	14.9	14.9	15.3
						(0.0)
58 Total ADIT - EoY			15.1	14.9	15.0	15.4
						(0.0)

November 20, 1991

BY FACSIMILE

Deborah Vogt, Esq.
P.O. Box 1065
Juneau, Alaska 99802

Re: Alyeska Oil Spill Response Services in
Prince William Sound

Dear Ms. Vogt:

Mike Williams has asked me to reply to your October 30, 1991 inquiry about Alyeska's authority to require "contracting vessels" to demonstrate its capability to hold Alyeska harmless from certain potential liabilities associated with initial oil spill response in Prince William Sound. You also have asked whether Alyeska pays oil and gas property tax on its oil spill response equipment.

**Alyeska Oil Spill Response Services Agreement:
Requirements for Financial Responsibility or Insurance**

As a Response Action Contractor, Alyeska provides oil spill prevention and initial response services to TAPS trade vessels in Prince William Sound. To establish a contract for these services, Alyeska uses an Oil Spill Response Services Agreement with entities ("Contracting Vessels") that either own, charter or operate those vessels. Those Agreements require Contracting Vessels to demonstrate their capability to meet contractual obligations by meeting financial responsibility or insurance requirements described in the Agreements. You have asked what authority allows Alyeska to impose those requirements on Contracting Vessels.

The Trans Alaska Pipeline System is owned by seven common carrier oil pipeline companies. Interstate transportation of petroleum by the carriers is regulated by the Federal Energy Regulatory Commission, and intrastate transportation of petroleum by the Alaska Public Utilities Commission. Alyeska Pipeline Service Company operates TAPS as the carriers' agent. Each TAPS carrier through its tariffs offers to transport a shipper's (i.e. a customer's) petroleum from origins on TAPS to destinations on TAPS, and if the destination is Valdez, to load it on board vessels furnished by the shipper.

Exh. 3

No carrier ever owns the petroleum carried in its space on TAPS. It merely provides transportation service for petroleum owned by others. All shipments on a carrier's space in TAPS are upon the terms and conditions and for the prices set out in the carrier's tariffs. A shipper accepts a carrier's offer by tendering petroleum to the carrier in accordance with the carrier's tariff requirements. A contract then exists between the shipper and the carrier for the carriage of petroleum from an origin on TAPS to a destination on TAPS. The carrier undertakes no obligation in its tariffs for the transportation of petroleum after it leaves TAPS.

Thus, under each TAPS carrier's tariffs, the shipper is responsible for its petroleum after it is loaded on board a vessel at Valdez and has the responsibility to furnish a vessel to carry the petroleum by water from Valdez to the petroleum's next destination.

The State of Alaska requires each vessel furnished by the shipper to have an oil spill response contingency plan, which must provide, among other things, for personnel and equipment to escort the shipper's vessels and to respond to a spill in Prince William Sound within a short period of time. Since no one else has stepped forward to offer vessel escort service and initial spill response in Prince William Sound, Alyeska has done so. Nothing prevents others from competing with Alyeska to provide these services. While there has been some debate as to whether, with respect to furnishing these services, Alyeska (a) is obligated under Alaska statute or the federal and state right-of-way grants, or (b) has volunteered (Alyeska believes it is a volunteer), there has never been any suggestion that the services are being furnished pursuant to any common carrier obligations of the TAPS carriers or their agent Alyeska. Thus the Agreement requirements, like all aspects of the response action contract, are strictly a matter of commercial contract. Alyeska needs no authority from any regulatory statute or regulatory agency to require financial responsibility or insurance in conjunction with the provision of response action contractor services.

As we discussed yesterday, the TAPS carriers include the costs of Alyeska's Prince William Sound effort in tariff charges for oil delivered to Valdez. This equitably distributes the costs of those services among their beneficiaries.

I also described to you Alyeska's reliance on its Prince William Sound capabilities to meet oil spill response planning standards imposed by AS 46.03.040 on the Valdez

Deborah Vogt, Esq.
November 20, 1991
Page 3

Marine Terminal. Meeting those requirements is a part of the TAPS Owners' common carrier obligations.

Oil and Gas Property Tax

Alyeska owns a large amount of oil spill response equipment, intended for use in Prince William Sound, at the Valdez Marine Terminal and along the pipeline. Alyeska pays the state's oil and gas property tax levied on that equipment.

Alyeska does not pay the state tax on marine vessels that it charters from various companies to assist spill prevention and response in Prince William Sound and Port Valdez.

Please call me at (907) 265-8565 if I can be of further assistance.

Sincerely yours,


Robert I. Shoaf
Assistant General Counsel

smk

cc: M.F.G. Williams

Updated 2/18/1991												
DISPRE - Quality Cost Participation Percentages												
		(Thousands barrels per quarter)								4th Qtr. 1990 Volumes		
COMPANY	OFFSHORE OIL PRODUCTION		REGULATED PIPELINES		DOCK TRANSFERS		TANKERS & BARGES		TOTALS		% Participation	
	MB/Qt	x 1.0	MB/Qt	x 0.1	MB/Qt	x 0.1	MB/Qt	x 1.0	Actual MB/Qt	Weighted MB/Qt		
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(B)	
MICO	440.2	440.2		0.0		0.0		0.0	440.2	440.2	2.4%	
Onshore (x .1)	510.0	51.0							510.0	51.0	8.3%	
CHEVRON		0.0		0.0	0.0	0.0	2,438.8	2,438.8	2,438.8	2,438.8	13.5%	
C.I.P.L.		0.0	2,518.6	261.1	2,452.9	245.3		0.0	5,063.5	506.3	2.8%	
KPL		0.0	1,216.9	121.7	9,898.8	989.9		0.0	11,115.7	1,111.6	6.2%	
MAPCO		0.0		0.0	511.1	51.1	511.1	511.1	1,022.2	562.2	3.1%	
MOCO	824.1	824.1		0.0		0.0	0.0	0.0	824.1	824.1	4.6%	
MOBIL		0.0		0.0		0.0		0.0	0.0	0.0	0.0%	
PHILLIPS		0.0		0.0		0.0		0.0	0.0	0.0	0.0%	
SHELL	552.4	552.4	0.0	0.0		0.0		0.0	552.4	552.4	3.1%	
TESORO		0.0	2,066.3	206.6	0.0	0.0	7,303.2	7,303.2	9,369.5	7,509.8	41.7%	
TEXACO		0.0		0.0	Rig Tenders							
UNOCAL	1,461.3	1,461.3		0.0		0.0	2,554.4	2,554.4	4,015.8	4,015.8	22.3%	
OTHER **		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTALS	3,788.0	3,329.1	5,893.8	589.4	12,882.9	1,286.3	12,807.5	12,807.5	35,352.2	18,012.3	100.0%	
%		18.5%		3.3%		7.1%		71.1%		100.0%		
** Excluded from participation % calculation.												

** Excluded from participation % calculation.

CISPRIL Quarterly Cost Participation Percentages

Revised 5/23/91		(Thousands barrels per quarter)								1st Qtr. 1991 Volumes		
COMPANY	OFFSHORE OIL PRODUCTION		REGULATED PIPELINES		DOCK TRANSFERS		TANKERS & BARGES		TOTALS		%	
	MB/Qtr	x 1.0	MB/Qtr	x 0.1	MB/Qtr	x 0.1	MB/Qtr	x 1.0	Actual MB/Qtr	Weighted MB/Qtr	Participation	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(B)	
ARCO	441.2	441.2		0.0		0.0		0.0	441.2	441.2	2.30%	
Onshore (x .1)	461.7	46.2							461.7	46.2	0.24%	
CHEVRON		0.0	78.0	7.0	8.8	0.0	2,608.5	2,608.5	2,678.5	2,615.5	13.63%	
C.I.P.L.		0.0	2,569.4	256.9	2,694.8	269.5		0.0	5,264.2	526.4	2.74%	
KPL		0.0	1,133.5	113.4	8,230.3	823.0		0.0	9,363.8	936.4	4.88%	
MAPCO		0.0		0.0	715.8	71.6	715.8	715.8	1,431.6	787.4	4.10%	
MOOD	774.3	774.3		0.0		0.0	8.0	0.0	774.3	774.3	4.03%	
MOBIL		0.0		0.0		0.0		0.0	0.0	0.0	0.00%	
PHILLIPS		0.0		0.0		0.0		0.0	0.0	0.0	0.00%	
SHELL	511.1	511.1	511.1	51.1		0.0		0.0	1,022.2	562.2	2.93%	
TESORO		0.0	1,554.7	155.5	474.0	47.4	8,158.4	8,158.4	10,185.1	8,359.2	43.58%	
TEXACO		0.0		0.0	Rtg Tenders	0.0		0.0	0.0	0.0	0.00%	
UNOCAL	1,448.4	1,448.4		0.0		0.0	2,694.8	2,694.8	4,143.2	4,143.2	21.59%	
OTHER **		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTALS	3,636.7	3,221.2	5,838.7	583.9	12,114.9	1,211.5	14,175.5	14,175.5	35,765.8	19,192.1	100.0%	
%		16.8%		3.0%		6.3%		73.9%		100.0%		
** Excluded from participation % calculation.												

** Excluded from participation % calculation.

CONTACTS

The following people were kind enough to provide information for this report:

Department of Revenue
Chuck Logsdon
Roger Marks

Department of Natural Resources
Bill VanDyke

British Petroleum
Bob Van Hook
Paul Quesnel
Tom Williams

Arco
Steve Mahoney

Tesoro
Gene Burden

Alyeska
Mike Williams
Rob Shoaf

Marine Preservation Association
Bob Aldag

CISPRI
Linda White

Alaska Clean Seas
Norm Ingram

Horst & Frisch
Ken Timbers

SCOMM

79:4



A LOCAL EMERGENCY RESPONSE TEAM

P.O. BOX 194, SELDOVIA AK. 99663 (907)234-7400

FAX 234-7699

January, 17, 1991

Dear House Resource Commtee,

It is certainly important to congratulate and spotlight the improvements of the Kenai Pipeline spill of 1992 from the 1989 Glacier Bay spill. We look forward to Bob Williams promise of a valve placement so this will not happen again...prevention first. Let us not be so easy in criticism as to not fix the obvious fixable items.

Foremost on the "repair" list would be for CISPRI and ADEC to contract the S.O.S. Team as part of the response team for the Inlet. The present fishing vessels that are contracted out of Kenai by CISPRI are laid up the majority of the year, they are drift boats, too small for the rigors of winter response. We know our waters, weather; boats, owners, and operators. The S.O.S. Team includes over 225 vessels; of that are many of the large seiners, crabbers, and longliners of Kachemak Bay and the lower Inlet's ice free waters. Five of these boats responded to the spill and many were in a ready state (2-4 hours underway from port) for many days. We were not part of industry or CISPRI response plans, yet, we offered to help and were asked to contribute.

Our boats did help make the response somewhat successful. It would be far more effective to fund an organization like S.O.S. Team, work out contractual kinks with industry and move forward as a team. We are down to our last few thousand dollars. We proposed and submitted budget proposals to ADEC and CISPRI of \$238,000 for 1991. CISPRI's budget is \$10 million which no longer includes CIRCAC funding. The ADEC is the overseer of the 470 funds. Neither made any reasonable offers. As a volunteer group we have helped our community, we run a recycling

program in town, we interact with the school in recycling, we help sponsor the coastwalk, and our "halibut on a bun" is becoming a favorite at Seldovia's July 4th celebration.

To fund this organization, S.O.S., is to open the door to other Alaska coastal communities to become active and concerned enough to provide vessel response. The S.O.S. concept would work great in Southeast or out west. It would provide a job or two in communities and bring together citizens in a region. It would increase public trust in industry and definitely replace complacency with a newfound activism. I have included a copy of our budget to show what (less than 2% of CISPRI's budget) \$238,000 would provide. Also, I have included points made in the tele-conference of January 15, and a brief chronology of events from our emergency log of January 4. I thank you for allowing us to participate.

Sincerely,



Karl Pulliam

S.O.S. Team Board member & Teleconference representative.

15-20

East Forelands Spill 1-4-92

F/H Lady Shirley

approx Noon - SOS member called office Patty Hansen took call contacted CISPRI and was instructed by Jerry Sutton to list 800 Hp or above boats. Faxed monthly 130pm availability list then was instructed

> Faxed list of 7 boats plus secondary list to Jerry Sutton left K. Pulliam # for contact or boat owners/operators.

4⁰⁰ (From Home) Contacted Lisa Parker / Lynda Honeywell / RCAC at CISPRI Response Center 776-5520. Expressed concern of non-contact of SOS Team. USCG notified at 10

6¹⁵ Contacted Lisa Parker at CISPRI Response. TV 2 indicated boats were responding from Homer and Seldovia - was unaware of Seldovia boat contact... elaborate please - 7 boats from S.H.

6³⁰ → Contacted Jerry Sutton CISPRI Logistics, was advised that a need existed for 3 more large boats due to team size & water conditions. Advised J.S. I would contact boats and have 3 ready in 2 hours for response. Asked about contract considerations will refer contact boats to J.S. for contract questions. Boats would be contracted by CISPRI, though.

6⁴⁰ Contacted Mike Miller would be ready with F/V Independence left for SOS office

JAN-21-92 TUE 16:07 0

Training & Drills

ICS	\$10,000
Haz-Mat	\$5,000
Boom Tactics & Response	\$5,000
First Aid	\$1,000
Sub-Total	\$21,000

Equipment Depot

Warehouse Rent	\$9,600
Warehouse Utilities	\$1,200
Hand Cart	\$150
Pallet Jack	\$500
Tools	\$600
Maintenance & Supplies	\$1,200
Decontamination Equipment	\$5,000
Fuel	\$800
Sub-Total	\$19,050

Total	\$238,438
-------	-----------



A LOCAL EMERGENCY RESPONSE TEAM

P.O. BOX 194, SELDOVIA AK. 99663 (907)234-7400

FAX 234-7699

Tele-conference transcript: January 15, 1991.

The S.O.S. TEAM is a non-profit local response organization made up of Kenai, Homer, Seldovia, Port Graham boats and citizens with an office in Seldovia. We were established for the purpose of becoming Initial responders to spill emergencies in Kachemak Bay and lower Cook Inlet. There are currently over 225 vessels and 56 trained responders listed in the S.O.S. Team's computerized resource data base from ports all over the Kenai Peninsula. Many of the skippers and crews have gained experience in responding to oil spills by working the Glacier Bay, Exxon Valdez, spills in Seldovia harbor, and now the Kenai Pipeline oil spills. We provided 5 of the 11 boats which responded (albeit much slower then we would have, had we been called earlier). We are very much in a position to offer some critical points, I hope you will give me your full attention.

1st. Spill occurred under ideal conditions, it was a small amount nearly on shore, in good weather, and just miles from CISPRI Head Quarters and their equipment and personnel. Yet, not enough equipment and personnel were available soon enough. I know this because the S.O.S. Team provided boats and we are not part of any Inlet oil producer or shippers contingency plan. This oversight in response could be remedied by contracting the S.O.S. Team as a responder, to assist CISPRI. Had the S.O.S. Team been contracted previous to the spill and included in spill contingency plans, our boats could have been on scene at 1st daylight on Jan 4 providing adequate personnel and equipment which was needed for a successful response.

2nd. Communication needs major improvement with the whole Inlet, Southern Inlet townships were not notified, Anchor Point, Homer, Seldovia, English Bay and Port Graham learned of the Spill the way Tatitlek did in 1989... by the evening news! These are the communities in the path of Inlet spills. More important the largest data base responder of

boats with trained personnel, The S.O.S. Team was not notified- We offered our services to CISPRI. The reason for the slow response of boats once contact was made was that CISPRI did not accept our Alyeska contracted boats, then they were not able to fax a copy of their contract to our Seldovia office until nearly 11 p.m.

3rd. As in the Exxon spill, local expertise and knowledge is not being utilized. Use of citizen response groups is essential. Citizens cleaned up the Glacier Bay spill, citizens cleaned up the Exxon spill. As in PWS, Cook Inlet industry should be incorporating a plan to use coastal community response organizations like S.O.S. Presently PWS RCAC has a feasibility study completed on this very system Coastal community response groups like S.O.S. Teams in Tyonek, or Ninilchik, Anchorage, and especially Kodiak, would provide for the needs of the Inlet.

Summary: Cook Inlet is a highly industrialized body of water - there is a need for extensive improvement in the response system as provided by the minor spill at Nikiski. Had this been the Overseas Washington dumping 100,000 gallons off Anchor Point, the S.O.S. Team would have most likely been the initial responders.

Approp

6⁴⁵ PM Attempted contact of Anna Lane & Ushagat
No answers. Made List of available boats

7¹⁵ Contacted Dexter Ogle / Gladys E advised that
Buck Brown had Trina available called and was
also available. Activated both boats

7³⁰ Contact CISPRI Jerry Sutton for contract approach
contract will be sent, if needed, boats may not be.

8⁰⁰ Gladys E, Independence, Trina standing by.

8¹⁵ Contact CISPRI for update. J.S. says do not dispatch
boats, need has minimized. Contacted skippers
stay ready, call in AM.

8³⁰ Contact CISPRI with status. J.S. instructs boats
to be deployed. Advise that contracts need to be
approved before boats respond. J.S. will send contract
as soon as he can get to Kenai office.

8⁴⁵ All boats & crew on stand-by awaiting contract
approval

9³⁰ Call CISPRI, contract status; J.S. has not been able
to leave office. Advise boats & crew readiness.

Approx

10¹⁵ Call CISPRI, J.S. has left will FAX contract from Kenai.

10⁴⁵ Contract FAX'd missing 2 pages from SOS FAX glitch. Try to contact CISPRI/Kenai, answer service instead. Call CISPRI IC, Vicki will have Bill S. send pages from Kenai, advise of questions to be answered.

11²⁵ FAX of 2 pages from Bill S. Call w/ Mike M and Dexter O about contracts.

11⁴⁵ Contact Tim Werba for response w/FV Independence

11⁵⁰ FAX signed copies to Bill S. for signature & return.

11⁵⁹ FAX copies back to SOS with Bill S. signature

12¹⁰ SKIPPERS & CREW to boats. Tim Werba en route.

12⁴⁰ AM Boats underway 1¹⁵ close office

SOS call-ins

Piper

Roger

Stuart

JAN-21-92 TUE 16:09 0

9TH ANNUAL CONFERENCE

MEET ALASKA '92



THE NEW
ECONOMIC WORLD ORDER
ALASKA'S PLACE IN IT

Confirmed Speakers

Dr. Fadhil Chalabi
Executive Director
Centre for Global Energy Studies

John B. "Jack" Coghill
Lieutenant Governor
State of Alaska

H. L. "Skip" Bilhartz
President
ARCO Alaska, Inc.

Alvaro Rebollo Lopez
Director General of Sales
of State Owned Enterprises - Mexico

Julian R. Darley
President
BP Exploration (Alaska) Inc.

Ichiro Yokose
Managing Director
Mitsubishi Corporation

James B. Hermiller
President
Alyeska Pipeline Service Company

David C. O'Neal
Assistant Secretary Lands & Minerals
U.S. Department of the Interior

E. M. "Gene" Isenberg
Chairman of the Board
Nabors Industries, Inc.

Paul Fuhs
Chief Legislative Liaison
Governor Hickel's Office

Donald E. Young
U.S. Congressman for Alaska
U.S. House of Representatives

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4220 B Street, Suite 200 / Anchorage, Alaska 99503-5911

563-2226 or FAX 561-8870

<u>BUDGET ITEM</u>	<u>BUDGET</u>
<u>Administration</u>	
Office Rent	\$4,800
Utilities	\$2,640
Supplies	\$4,800
Phone	\$3,600
Postage	\$2,400
Copier	\$2,400
Pager	\$768
Liability Insurance	\$2,500
Auto Insurance	\$600
Freight	\$1,200
Travel	\$7,500
Per Diem	\$6,000
Office Equipment	
Answering Machine	\$130
Typewriter	\$250
Slide Projector	\$350
Screen	\$300
Tape Recorder	\$200
Vacuum Cleaner	\$100
Teleconference Equipment	\$200
Projects	
Membership Services	\$1,900
Training Printing	\$2,000
Workshop	\$10,000
Sub-Total	<u>\$54,638</u>
<u>Salaries</u>	
Program Director	\$45,000
Office Manager/Bookkeeper	\$25,000
Response Depot/Recycle	\$15,000
Benefits	\$46,750
Sub-Total	<u>\$131,750</u>
<u>Safety</u>	
Safety Equipment	\$5,000
Safety Supplies	\$1,000
Sub-Total	<u>\$6,000</u>



**COOK INLET
AQUACULTURE ASSOCIATION**

HC 2, BOX 848
SOLDOTNA, AK 99689-9707
(907) 283-6781

January 16, 1992

House Resources Committee
Via Telefax 465-2299

To be included in Cook Inlet Oil
Spill Hearing Record of 1-15-92

Dear Resources Committee Members:

I was invited to participate in yesterday's hearing regarding the recent oil spill from the Kenai Pipeline facility. Teleconference time expired before I could offer the following observations:

* NO OIL SPILL IS GOOD; NONE OCCURS AT A GOOD TIME. All spills represent failure of men, equipment and control systems.

* MOST OF THE OIL SPILLED WAS NOT RECOVERED; even though weather was good, the spiller properly assumed responsibility and response was expert, prompt, coordinated, well intentioned and "successful".

* THIS IS AT LEAST THE SEVENTH SPILL TO AFFECT COOK INLET SINCE "GLACIER BAY" IN 1987. (includes a 1988 incident which fouled fishing gear but is called the "phantom" spill)

* SPILLS PREVENTED RESULT IN NO FINE, NO COMPENSATION, NO MITIGATION, NO ENVIRONMENTAL DAMAGE AND NO NEGATIVE PUBLICITY.

* SPILL PREVENTION MUST BECOME THE PRIMARY FOCUS of elected officials, regulatory agencies, oil facility operators, CISPRI (the "P" stands for "prevention") and Cook Inlet Regional Citizen's Advisory Council.

Sincerely,

Thomas E. Mears,
Executive Director

cc: Tim Huber, Peninsula Clarion

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

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January 15, 1992

STATEMENT FOR THE HOUSE RESOURCES COMMITTEE AND SPECIAL COMMITTEE
ON OIL AND GAS, JAN. 15, 1992 HEARING ON THE COOK INLET OIL SPILL
BY JOHN A. SANDOR, COMMISSIONER, DEPT. OF ENVIRON. CONSERVATION

Mr. Chairman, thank you for the opportunity to participate in this important hearing.

Although we are nearing the third anniversary of the Exxon Valdez Oil Spill, State of Alaska, Federal Government agencies, the Oil Industry and various private organizations are still evaluating that spill. We are also working together to develop plans programs and techniques to prevent such incidents and to develop better response capability when they do occur. We have been working together in training sessions and spill drills under a variety of scenarios and locations. These cooperative efforts are intended to develop a strong partnership response in the event of an oil or hazardous substance spill.

However, spill drills still lack the reality of actual conditions and unforeseen problems. We have not been able to effectively, simulate an unexpected, oil on water spill, under winter weather conditions. The oil spill incident which occurred sometime before midnight on Friday evening at the Kenai Pipe Line Company dock in Nikiski came close to meeting that objective.

Although this spill was unfortunate, it did enable us to test our response capability, without apparent, significant resource damage. The discovery of this spill, shortly after midnight, early Saturday morning, January 4, triggered a series of response actions which are now being evaluated. The conditions were real and many lessons were and are being learned.

Although the investigations are still underway, it is very appropriate that your Committees evaluate this incident, and take whatever actions you deem appropriate that will help strengthen our prevention and response capability. The Department of Environmental Conservation and the many other organizations involved in this partnership effort are very eager to share information and to work together in critiquing this incident and the actions taken.

KENAI PIPE LINE SPILL

- The Department has been participating on the Cook Inlet Spill Prevention and Response, Inc. (CISPRI) board (non-voting member) and on CISPRI committees, fostering a partnership with the industry spill response cooperative in Cook Inlet.
- ADEC, DNR, and ADF&G have been participating in table-top and on-water spill response exercises with CISPRI and the U.S. Coast Guard, practicing lines of communication, spill response organization, and conflict resolution. This spill response was much like one of the drills and lessons learned during the drills were applied to the response.
- The State implemented the new State Oil and Hazardous Substance Discharge Prevention and Contingency Plan following the notification procedures to other agencies and implementing the State's Incident Command System.
- DEC established a budget for use of the Response Fund spill reserve on the first day of the spill and is cooperating with other agencies to document state costs for cost-recovery.
- ADEC cooperated with the Coast Guard in conducting joint overflights, review and evaluation of a dispersant use request, investigation of the cause of the incident and monitoring and evaluation of the adequacy of cleanup.
- ADEC established specific objectives for monitoring the response and positioned a response team in the command post in Kenai. Additional staff were stationed in Anchorage and Juneau to assist with public information needs, coordinating the use of other department resources and keeping management apprised of the status of the response.
- Although the overall response benefitted tremendously from the spill drills and interaction during review of the contingency plan some problems were encountered. The Department is currently reviewing the response activities and will be preparing a critique of the containment and recovery operations that will be used for making refinements in future responses.
- The Department has sampled the source and defined the area of contamination. Additional surveillance will be conducted in response to any reported observations of oil or tarballs in Cook Inlet. Impacts to date have been minimal and the majority of the oil was concentrated in prominent Cook Inlet tide rips.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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Page two - House Natural Resources and Special Committee on Oil
and Gas Hearing - January 15, 1992

Accompanying this brief statement is a brief Chronological Summary of the events associated with the Kenai Pipeline Spill including a listing of the major Department of Environmental Conservation (DEC) activities associated with this incident.

I want to express the appreciation of the DEC for the excellent response by the organizations involved with this incident. All organizations involved recognize some deficiencies and problem areas that need attention. We will be preparing a critique of the containment and recovery operations that will be used for making refinements in future responses.

The Department of Environmental Conservation personnel who are here today (or on teleconference) to offer their testimony include the following:

Svend Brandt-Erichsen, State On-Scene Coordinator (SOSC)
Joe Sautner, Deputy SOSC
Mark Sienkiewicz, SOSC On-Scene Representative
Mike Conway, Director, SPAR Division

Thank you again, for the opportunity to testify.

KENAI PIPE LINE SPILL

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STATE OF ALASKA
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Kenai District Office P.O. Box 1207 Soldotna, Alaska 99669
Phone: 262-5210 Fax: 262-2294

M E M O R A N D U M

TO: Commissioner John A. Sandor **DATE:** January 15, 1992
Department of Environmental Conservation
Juneau, Alaska

THRU: Lynn Kent
Joe Sautner
Svend Brandt-Erichsen

FROM: Mark Slonkewicz **SUBJECT:** Kenai Pipeline Spill
Kenai District Office Chronology

Please find attached a Draft Chronology of the events that followed the release of crude oil from the Kenai Pipeline Company on January 4, 1992. The Chronology was prepared using available notes and data and contains only the most pertinent events of the spill. It should be noted that this document is a draft and may contain minor inaccuracies in times or events. A more accurate and detailed chronology will be prepared in the future.

Please do not hesitate to call me at 262-5210 if there are any questions.

DRAFT
Oil Spill Chronology
Kenai Pipeline Company East Forelands Spill
ADEC Spill Number 92-2-3-1-004-1

January 4, 1992

- 0015 Workers on the Rig Tender's Dock (RTD) located north of the Kenai Pipeline Company (KPL) and Tesoro Dock in Nikiski observe a large amount of oil on the water surface. Tesoro and KPL are notified. The spill source is found to be a ruptured ballast water line located on the KPL dock.
- 0132 KPL manager Bob Williams notifies the Alaska State Troopers (AST) of the release. AST then notifies the Department of Environmental Conservation (DEC), Kenai District Office.
- 0150 ADEC's primary responder for the district, Mark Sienkiewicz, receives a verbal briefing by Mr. Williams that a 400 barrel crude oil released occurred from the KPL facility at approximately 0100. Spill source was stopped. The tide was at flood at the time of the spill. District Office Manager and Regional Administrator are advised.
- 0300 ADEC responds to the KPL office. Mr. Williams provides update on spill. Oil is located approximately 4-6 miles north of RTD. CISPRI is conducting the on-water response. KPL taking full responsibility for spill. Motor Vessel (M/V) Banda Seahorse on scene and foxtail skimmer operational at 0255. Other CISPRI equipment being mobilized to scene. Verified that USCG and CIRCAC were notified.
- 0330 - 0730 ADEC notifies Kenai Peninsula Borough, Department of Fish and Game (AF&G) Habitat Division, and the Regional SPPM Program Manager.
- 0345 ADEC inspects RTD area. Observes oil sheen in water on flood current.
- 0415 ADEC and USCG jointly inspect pipe rupture to document conditions.
- 0830 M/V Monarch enroute to spill location.
- 1030 First helicopter overflight of spill occurs at first light. Oil slick is in area located between 1 and 10 miles offshore, from Nikiski to the Kenai River, in a narrow band approximately 300 feet wide.
- 1100 Additional ADEC personnel are requested for assistance from the SCRO.
- 1150 Coordinated Command Meeting - M/V Banda Seahorse and M/V Monarch located in oil slick and skimmers operational. Additional CISPRI equipment being mobilized including additional barges, motor vessels, oil skimmers, fishing vessels, and personnel.
- 1320 ADEC inspect the cleaning of an oiled hull of a barge located at RTD.
- 1510 ADEC personnel from District Office collect oil samples from KPL ballast water tanks.
- 1530 Helicopter overflight observes a wide oil slick, 10 miles long and 1/2 mile wide, approximately 10 miles west of the East Forelands. Slick consists of broken patches of brown and black oil, intermixed with brown sheen. M/V Monarch and Banda Seahorse observed skimming oil.

- 1600 Command post relocated from the KPL office to the Unocal Camp.
- 1700 ADEC receives dispersant application from KPL. USCG approves test application of dispersant for 1/5/92 to in an effort to minimize impacts to Kalgin Island. Report from CISPRI/ADEC/USCG east beach survey is that only minor sheen is located ashore in small area just north of RTD.
- 1730 ADEC begin arriving from Anchorage to assist at Command Post. Radio tracking buoys deployed in oil.
- 1930 ADEC's site safety plan is prepared. ADEC reviews dispersant application.

January 5, 1992

- 0200 M/V Banda Seahorse and Monarch loose visual contact with oil, cease skimming operations and enroute to RTD to off load collected oil/water mixture.
- 0205 M/V Champion reports from Homer that tow-line for the ZPC-401 lightering barge is not sufficient.
- 0600 Weather briefing indicates deteriorating weather conditions for 1-5-92.
- 0700 Meeting with KPL's consultant Hartech to discuss air traffic safety and sensitive habitat protection issues. AF&G consulted. ADEC and USCG begin joint facility investigations.
- 0840 Coordinated Command Meeting. Tug Pacific Wind enroute from Anchorage to tow lightering barge from Homer to spill scene.
- 1005 ADEC requests mobilization and assistance of F&G habitat specialists.
- 1015 Helicopter overflight occurring.
- 1020 Discussion with KPL regarding their request for approval for Natural Resources Damage Assessment work.
- 1040 Discuss clam impacts with AF&G biologist Paul Reusch.
- 1100 ADEC specialist departs RTD via M/V Resolution, enroute to M/V Banda Seahorse to observe on-water skimmer operations.
- 1120 USCG requests comments and concurrence on dispersant test application based on oil slick projected trajectory to impact Kalgin Island. ADEC confers with CIRCAC and concurs on test application. Test application subsequently fails due to high viscosity of solution at cold temperatures.
- 1140 KPL and ADEC personnel depart Nikiski via helicopter for the collection of soil samples along potential impact areas.
- 1245 Briefing by Bob Williams indicates that the M/V Monarch and Banda Seahorse are presently in oil and skimming. A flexfloat barge with a foxtail is loaded and enroute to slick. One section of ocean boom is being deployed with a fishing vessel. The lightering barge is enroute.
- 1345 Coordinated Command Meeting. Oil is located in two slicks located 2 and 5 miles east of Kalgin Island. The slicks consist primarily of sheen, with some black tar balls. the skimmers are now only semi-effective. Boom being utilized for concentration of the oil.
- 1410 ADEC grants approval to Cook Inlet Pipeline Company to release fast water and sorbent boom from the facility inventory to be utilized for sensitive habitat protection at Kalgin Island. AF&G habitat specialist and additional ADEC personnel

- arrive at command post. Sensitive habitat protection strategy meeting is conducted. Protection boom being staged to Kalgin Island.
- 1730 ADEC and AF&G meeting is conducted to discuss briefing of incident, personnel functions, and safety.
- 1900-2400 Command post manned.

January 6, 1992

- 0600 Equipment and personnel being readied for operations at command post.
- 1000 Helicopter overflight of spill. Oil slick located approximately 6-8 miles southeast of Kalgin Island. The oil is observed in a broken band approximately 1-2 miles in length. The oil appears to be a light to medium sheen with areas of tar balls, mainly concentrated in the southern area of the slick.
- 1055 ADEC completes beach survey from RTD north along the east shore of Cook Inlet. No evidence of any oil is found on the beach.
- 1240 ADF&G habitat specialist departs command post to RTD for overflight.
- 1310 ADEC and AF&G attends fixed wing overflight of Cook Inlet. A rainbow sheen was observed 13 miles northwest of Anchor Point. The oil sheen was observed to be 3/4 miles long by 200 yards wide. The oil appeared as a silvery sheen, with irregular patches of dark brown medium sheen, no tar balls observed.
- 1525 Briefing by KPL/CISPRI indicates that the ZPC-401 Barge is presently located in Snug Harbor. The Glacier landing craft is located 6 miles east of Kalgin Island awaiting pick-up of oil. The Point Hope barge is located 1.5 miles off Swamp Point and has fishing vessel towing boom for recovery operations. The M/V Banda Seahorse and Monarch is conducting skimming operations off Kalgin Island. The Twilight, Nanook, and Arch One landing crafts are located on standby off Swamp Creek for sensitive habitat protection. 4 fishing vessels are located near Kalgin Island towing containment boom.
- 1620 Skimming vessel Monarch moving south to 13 miles west of Ninilchik to begin skimming operations in area of 1310 hrs oil sighting.
- 1800 CISPRI conducted a joint briefing on the days activities, recovery operations will continue as long as the vessels can stay/see the oil.

January 07, 1992

- 0700 CISPRI briefing indicated that the M/V Banda Seahorse, Monarch, and the Point Hope discontinued skimming operations due to the difficulty in locating recoverable oil in the darkness. Standing by off south Kalgin Island.
- 0830 ADF&G and NOAA are working on a beach survey plan to determine the priorities for beach survey flights.
- 0930 ADEC and AF&G begin helicopter overflight and beach surveys on west side of Cook Inlet.
- 0935 Helicopter overflight of Inlet spill area.
- 1005 Fixed wing twin otter overflight of Cook Inlet. Attending overflight is CIRAC,

AF&G, CISPRI, and KPL

- 1200 Coordinated Command Meeting. ZPC-401 lightering barge released from spill and will be enroute to Homer. Glacier and Point Hope to be utilized for decontamination operations.
- 1300 Fixed wing overflight reports no observation of oil. The overflight left Kenai and flew south along the coastline to mid-Kachemack Bay, turned north due to poor weather conditions, then proceeded west to Dry Bay, and again began flying north along the west coast of the Inlet to Harriet Point and then east along Kalgin Island and then returned to Kenai Airport.
- 1300 Helicopter overflight of Inlet reports no oil observed. The overflight left RTD, flew west to the mid channel rip and then turned south and flew along the rip. Flight discontinued due to poor visibility and icing problems, landed at Homer airport to refuel. Departed Homer and flew north to the mid channel rip followed the mid channel rip to Kalgin Island and flew the west side of the Island and then returned to Rig Tender's heliport.
- 1600 Coordinated Command Meeting. No oil spotted in overflights. Decontamination of vessels and equipment to commence on 1-8-92. Twin Otter Fixed wing aircraft to standby in Anchorage for possible overflights. M/V Banda Seahorse and Monarch to standby at decontamination area in the event that additional oil is located. These two vessels will be decontaminated last.

January 8, 1992

- 0800 ADEC demobilizing personnel and equipment from command post. Organizing documentation and evidence. Investigations at KPL facility continuing. ADEC specialist mobilizing to Kalgin Island area to observe decontamination activities which was commencing.
- 1000 Fixed wing overflight of Cook Inlet from West Forelands to Augustine Island. No oil observed.

January 9, 1992

All out-of-district ADEC and AF&G personnel demobilized from spill. Investigations and decontamination oversight continuing.

January 10, 1992

Investigation and decontamination oversight continues.

January 11, 1992

Oversight of decontamination activities continuing.
2330 Decontamination oversight completed.

January 12, 1992

ADEC inspects solid wastes and oversees collection of RCRA hazardous waste samples.

January 13, 1992

Investigation and oversight activities continue through week.

**Representative Gail Phillips' Presentation to:
House Special Committee on Oil and Gas
January 15, 1992**

Thank you, Chairmen Hudson and Davidson, for providing Alaskans the opportunity to share their thoughts on the Kenai Oil Spill of January 4th.

As a legislator in the District where the spill occurred, I maintained continual contact with the organization in charge of the clean-up, and I would like to have my observations included in this official hearing.

I will touch first on what I consider the high points of the clean-up effort:

- First, and most important -- because the clean-up effort was so efficient and well-coordinated, there was no damage to any wildlife or any shoreline;**

- Secondly, even though one barrel of oil is too much in our waters, it was encouraging to learn that the total amount of oil spilled was significantly revised downward from an estimated 400 barrel spill to a 171 barrel spill.**

- Next, the average percentage of oil normally retrieved during a spill is 10-15%. However, because of the skill and preparedness of the organizations involved in this clean-up, and because of favorable wave and wind conditions, an incredibly higher percent of the oil spill was recovered by the skimming vessels.**

- All the organizations involved - CISPRI, CIRCAC, the Coast Guard, DEC, and the Kenai Pipeline Company are to be highly commended for their immediate and professional response to this potential disaster. Three days after the first spill alert, the Coast Guard positively reported sighting no oil on the water.**

- I feel the response action taken by all the organizations involved showed outstanding joint effort and very effectively demonstrated the necessity and credibility of adequate training.**

Secondly, I want to focus on what I feel were the shortcomings of this clean-up effort, and to offer my suggestions for necessary improvements:

- First, the issue of the chemical dispersant and freezing temperatures must be addressed. Alaska has cold weather - how can anyone possibly approve a dispersant and a delivery system for that dispersant that cannot work at freezing temperatures? How can this possibly be incorporated into use on the North Slope?

- Second, it is essential that an automatic alarm system be installed on the pipeline that will immediately alert proper authorities of a spill. Also, I think improvements need to be made on the heating elements in the pipeline to prevent this type of break (one due to freezing) from occurring again.

- Third, I think CISPRI must increase their inventory of local boats available in the immediate Kenai/North Kenai area. They appear to have sufficient boats on stand-by in the Homer area, but the time involved in bringing a boat up from Homer to Kenai may be a waste of valuable response time.

- Fourth, CIRCAC needs to establish better communication and public relations procedures. Before another incident occurs, their board needs to identify one spokesperson for their organization. During this spill, conflicting statements were given to the Press from members of their Board and from their Executive Director. This makes it very difficult for the public to truly assess what is going on.

I have personally spoken with the individuals and organizations involved about these shortcomings and am in the process of following up in writing, what I see are the necessary improvements.

Having CISPRI in place in conjunction with the Citizen involvement of CIRCAC very effectively demonstrated that oil spills can be immediately cleaned up. As much as we abhor an accident involving oil and our oceans, it is encouraging to see the technological advances we have to respond to such incidences.

House Resources/Oil and Gas Committee Hearing on Cook Inlet Spill
1/15/91

Oil Reform Alliance Comments -- presented by Pamela Miller

My comments today are offered as constructive criticism and I thank you for the opportunity to testify.

Prevention/Pipeline Safety Issues

While oil industry and agency officials have been busy patting themselves on the back for the "successful" cleanup at Nikiski, important issues go unexamined. There is an astonishing lack of scrutiny regarding pipeline spill prevention. We need to closely examine the issues concerning the reasons it happened. This spill is a symptom of a nationwide problem which results in spills occurring on a disturbingly frequent basis across the United States. Given the hundreds of miles of pipeline adjacent and underlying Cook Inlet, the extremely high seismic risks and lack of oversight, pipeline safety issues must be given great scrutiny.

A January 1991 General Accounting Office (GAO) report pointed out that DOT/USCG is responsible for preventing oil spills from pipelines, but has not instituted a program to do so. The Coast Guard generally does not know the specific locations and operators of pipelines, and cannot adequately plan for or ensure timely response. Between 1980 and 1989, 3910 spills from landbased pipelines released 20 million gallons of oil into US waters, accounting for approximately 15% of all oil pollution during this period. These spills ranged in size from 1-3.5 million gallons, averaging more than 5,000 gallons each. Many of these spills were caused by rupture of the pipeline due to corrosion, failure of a valve or gasket, or damage from outside force.

The USCG has not implemented a prevention program because they lack the engineering expertise and has not dedicated funds to such a program. After this GAO report, Congress attempted to institute a bill which would tighten pipeline and tankfarm regulations. As oil industry officials congratulate themselves over the success of this spill, their lobbyists are back in Congress trying to gut these legislative reforms. Last year, DOT's office of Pipeline Safety considered 18 safety proposals and adopted only 2, falling victim to the oil industry's objections of cost. Construction standards then, consist mainly of those set by the industry. No wonder then that the industry is tying the hands of CIRCA in its attempts to initiate a Structural Integrity group to address pipeline issues.

Response

The most important issue here is that this spill response did not meet the response standards set in HB 587. The response did not meet those standards, although the conditions for cleanup were nearly ideal. The conditions of the spill -- that the spill occurred nearshore, winds moved the oil offshore and seas were relatively calm and ice-free -- makes us question why the cleanup was not effective. Luck is not

usually part of the spill equation and cannot be counted on.

Environmental Damage

It is very disturbing to hear agency and oil industry officials presuppose that there were little or no environmental damages simply because the oil did not wash ashore. A substantial amount of oil was not recovered. Although oil may have disappeared offshore and the environmental impact difficult or impossible to measure, this does not mean that the impact is non-significant. We must consider the chronic, long-term and synergistic effects of repeated small and periodic large spills, in addition to the substantial amounts of regulated and unregulated oil industrial wastes entering Cook Inlet. We continue to question the wisdom of allowing additional leasing and development in Cook Inlet without a comprehensive assessment of the long-term impacts.

Concerning the public hearing held via teleconference on January 15, it was completely unacceptable to deny people the right to testify given the level of concern about this spill. Many people had waited over 2 hours to provide their comment. These comments included those of residents and fishermen and are important in our collective efforts to improve spill prevention and response. We urge the committees to hold a complete public hearing on this matter.

I enter for the record two publications which have significant bearing on the Nikiski spill:

- 1) Pollution from Pipelines: DOT Lacks Prevention Program and Information for Timely Response, United States General Accounting Office Report to Congressional Requestors, January 1991.
- 2) The Oozing of America: While Our Pipelines and Tank Farms Dribble, Congress Doodles by Robert Rackloff. Washington Post, September 15, 1991.

EAST FORELANDS Spill

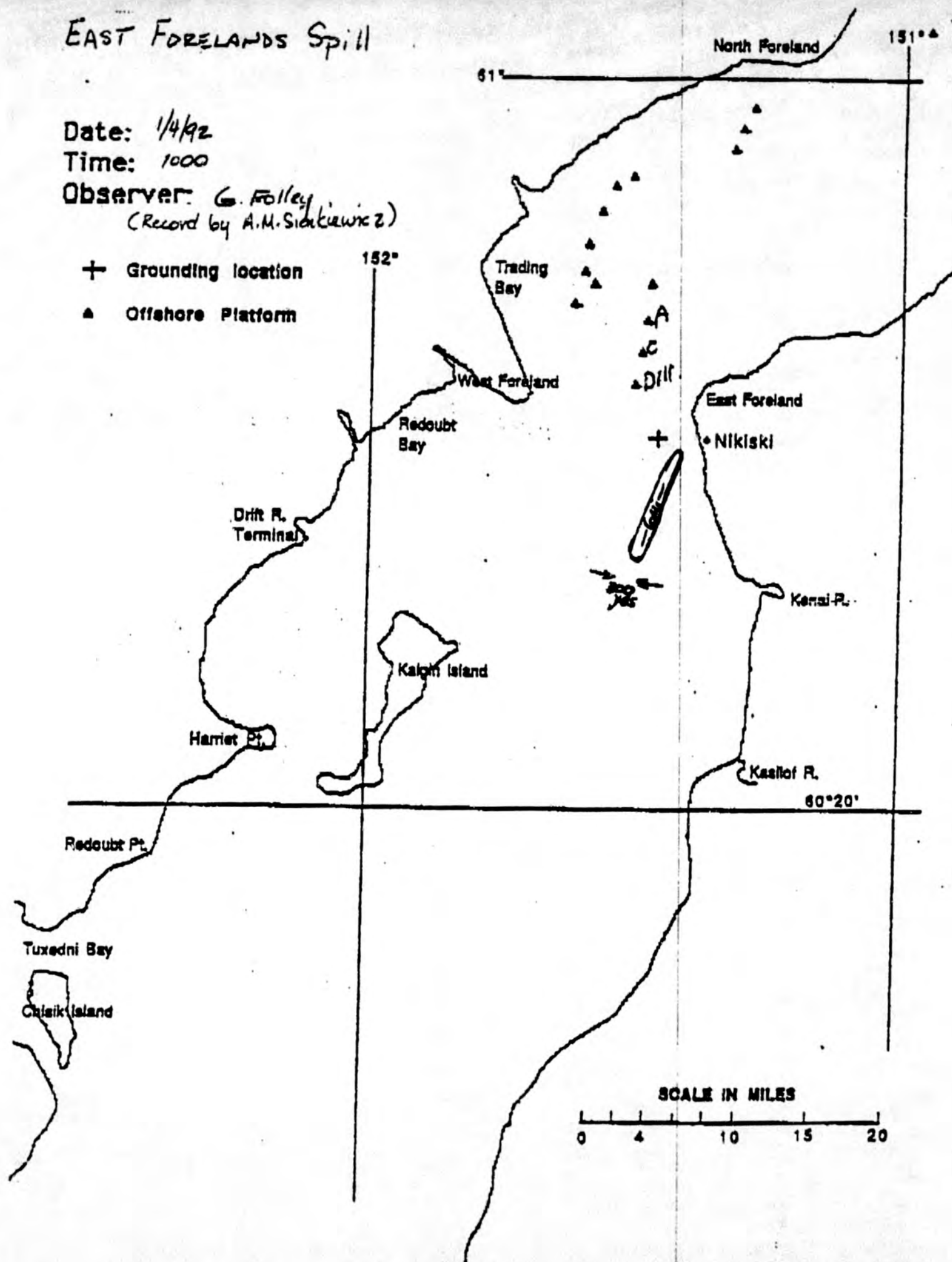
Date: 1/4/92

Time: 1000

Observer: G. Folley
(Record by A.M. Siskiewicz)

+ Grounding location

▲ Offshore Platform



SENT BY:

1-14-92 : 8:51AM : ADEC KENAI DISTRICT-

DEC - SCRO: # 3

1/5/92 1300 UPDATE

EAST FORELANDS Spill AIR OBSERVATIONS

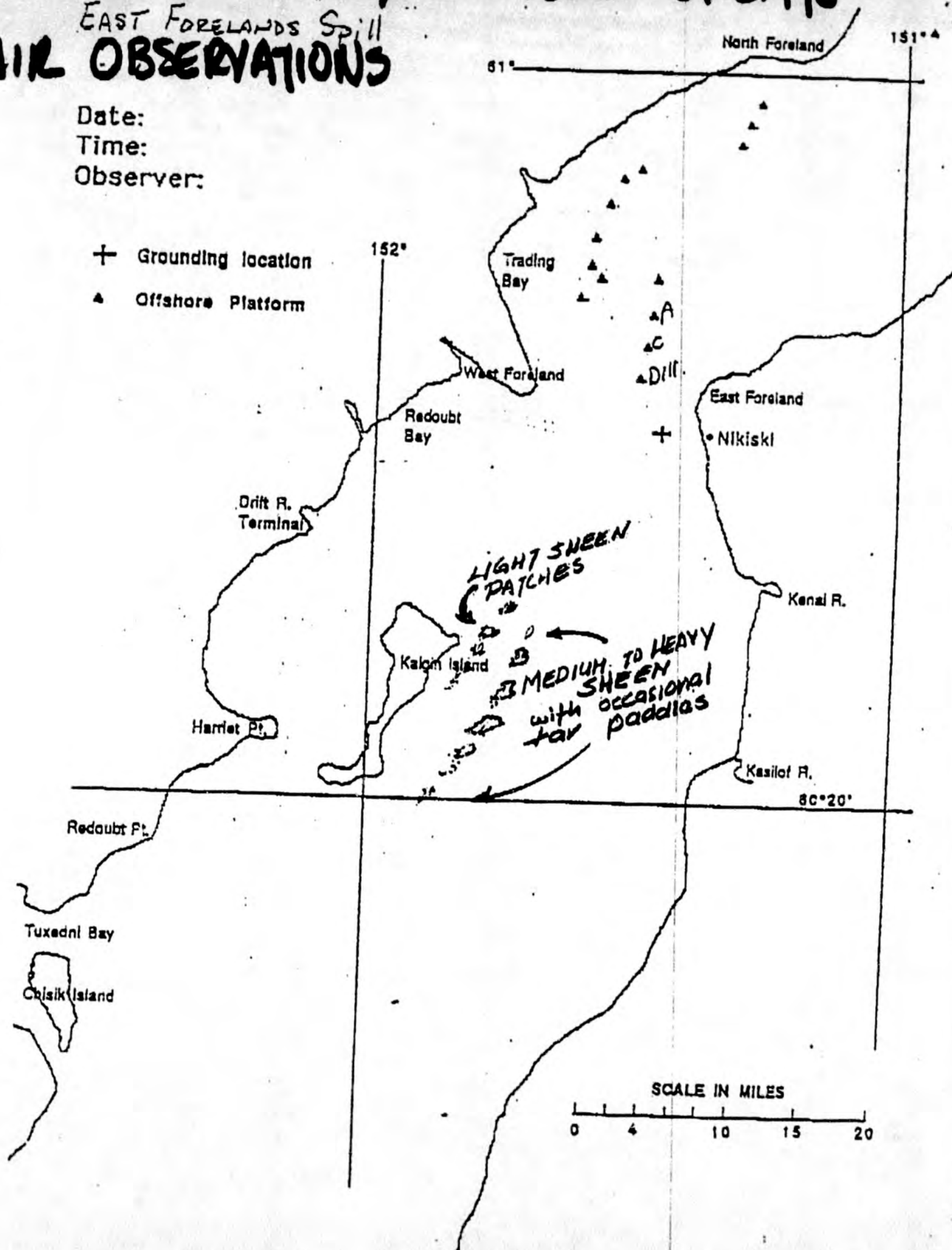
Date:

Time:

Observer:

+ Grounding location

▲ Offshore Platform



EAST FORELANDS Spill

92-23-1-004-1

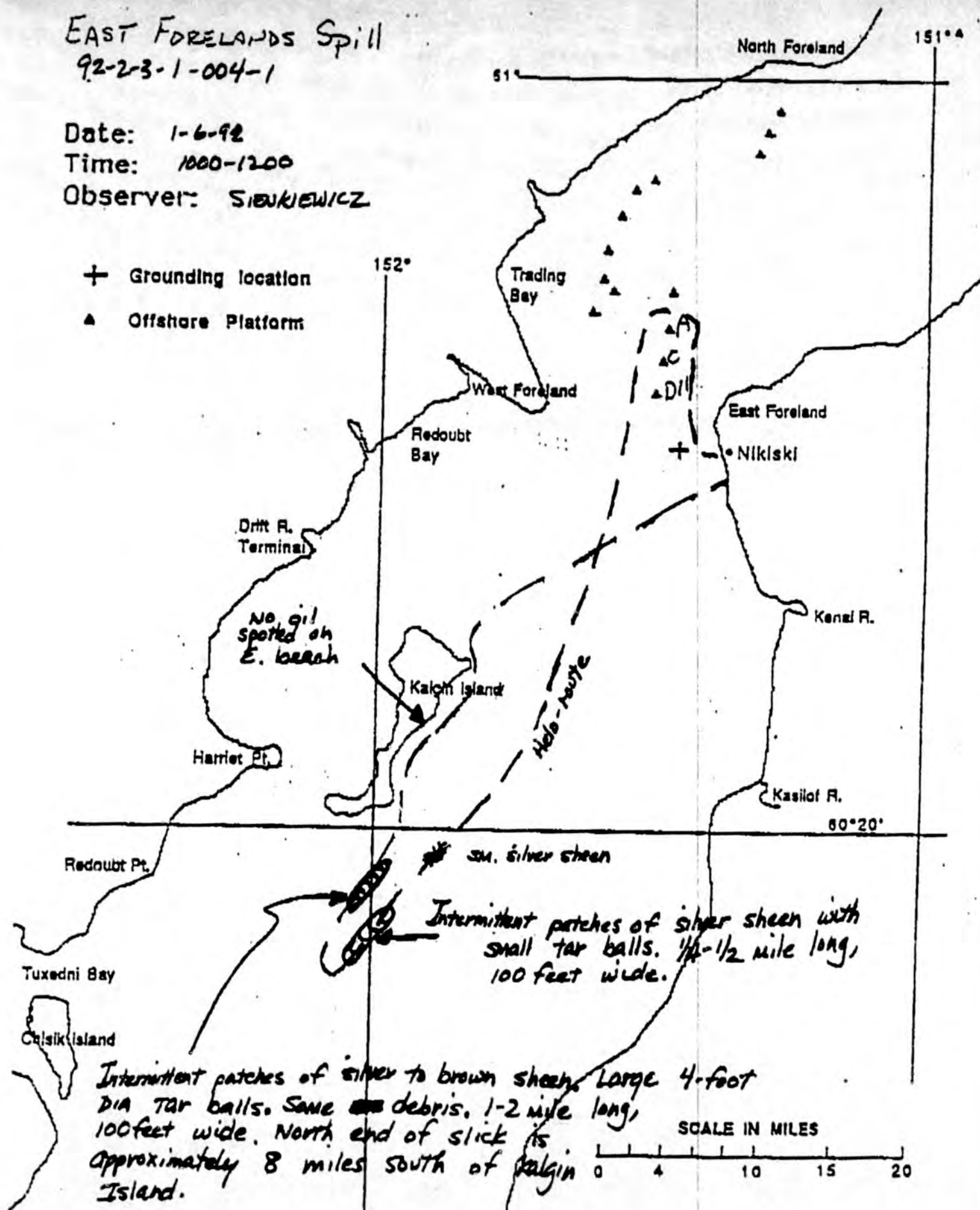
Date: 1-6-92

Time: 1000-1200

Observer: SIENKIEWICZ

+ Grounding location

▲ Offshore Platform



Weather at Kalgin - Snow, 32°, winds NNE 10KTS, 1' seas. Ceiling 400'.

~~CONFIDENTIAL~~

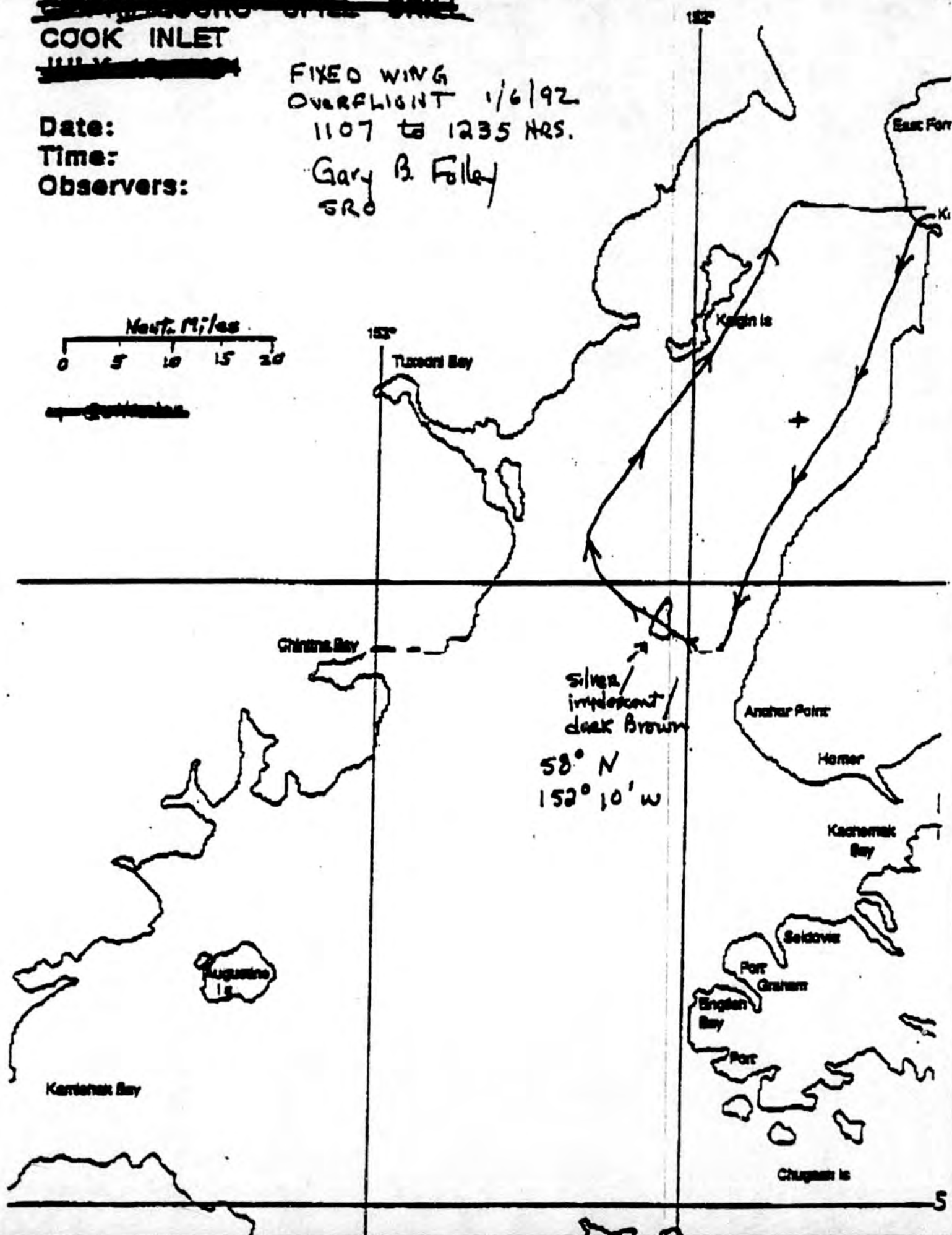
COOK INLET

~~CONFIDENTIAL~~

Date:

Time:

Observers:

FIXED WING
OVERFLIGHT 1/6/92
1107 to 1235 HRS.Gary B. Foley
SR0Naut. Miles
0 5 10 15 20~~CONFIDENTIAL~~

SENT BY:

1-14-92 : 8:53AM : ADEC KENAI DISTRICT-

DEC - SCRO:W 8

Gay Muhlberg - ADF+G

ERA OTU

EAST FORELANDS Spill

Date: 1-6-92 depart 1100 hours
arrive kenai 1245

Time:

Observers:

Dave Rogers (USCG)

Phil Larsen (HMC)

Gary Foley (USCG)

ZANE RESER (USCG)

Lisa Parker (CIRAC)

Gay Muhlberg (ADF+G)

Naut. Miles.

0 5 10 15 20

153°

Tuxedni Bay

Owen Trible (USCG)

LARRY SMITH (CIRAC)

Christina Bay

med-heavy
sheen
Intermittent
patches of
oil 6-8 feet
wide. Difficult
to determine
extent. Poor
visibility.

Anchor Point

Homer

Kachemak Bay

Soldovia

Port Graham

English Bay

Port

Chugach Is

Karrat

Augustine Is

East Fo

light
sheen

1122 AM

5°

Lance L. Thosky SURFLO

1/6/92

EAST FORELANDS Spill

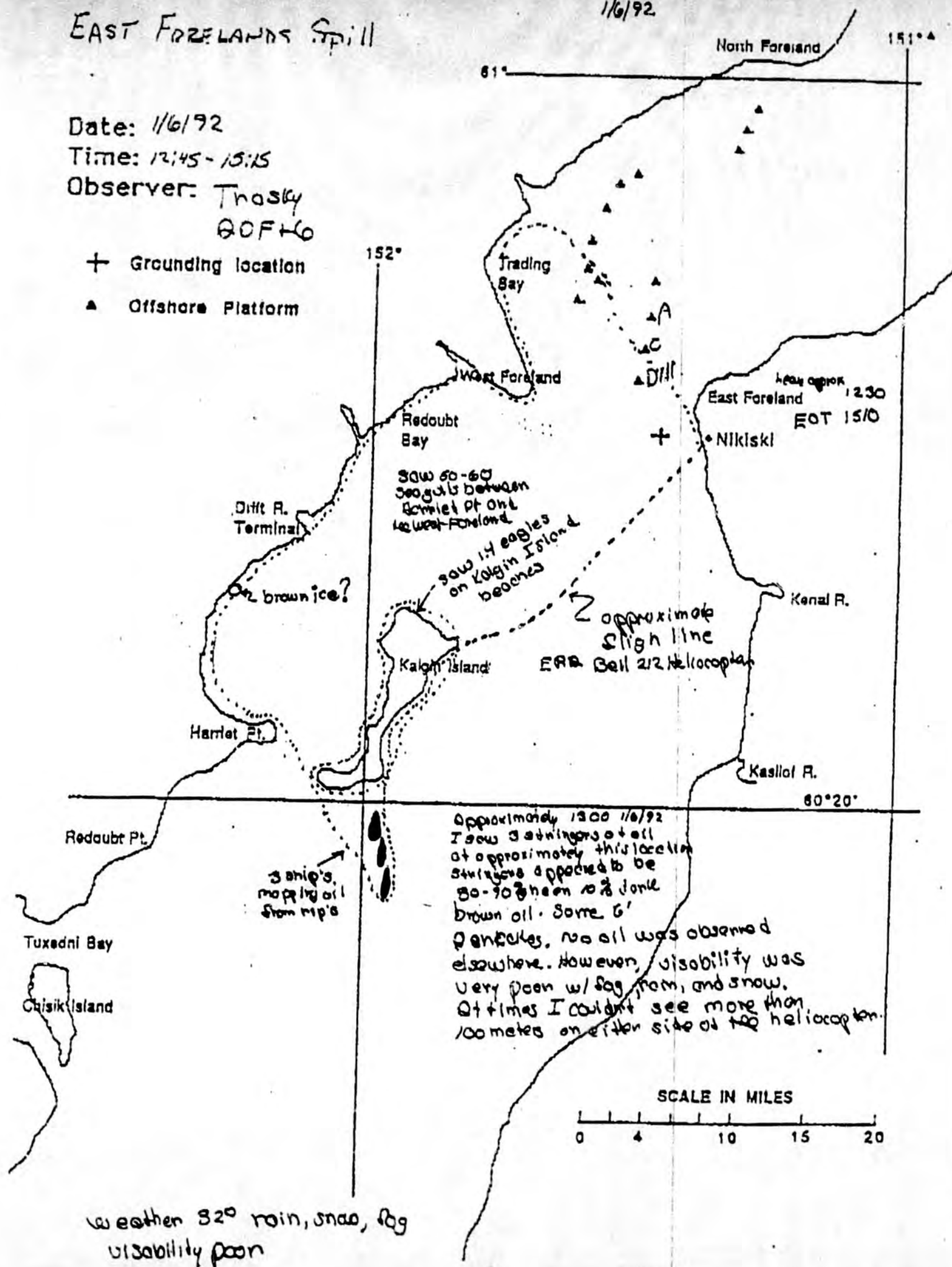
Date: 1/6/92

Time: 12:45 - 13:15

Observer: Thosky
BDFHO

+ Grounding location

▲ Offshore Platform



weather 32° rain, snow, fog
visibility poor

SENT BY:

1-14-92 8:55AM ADEC KENAI DISTRICT

DEC - SCRO: # 8

Gay Muhlberg - ADF+G

EAST FORELANDS Spill

Date: Jan 6 1992

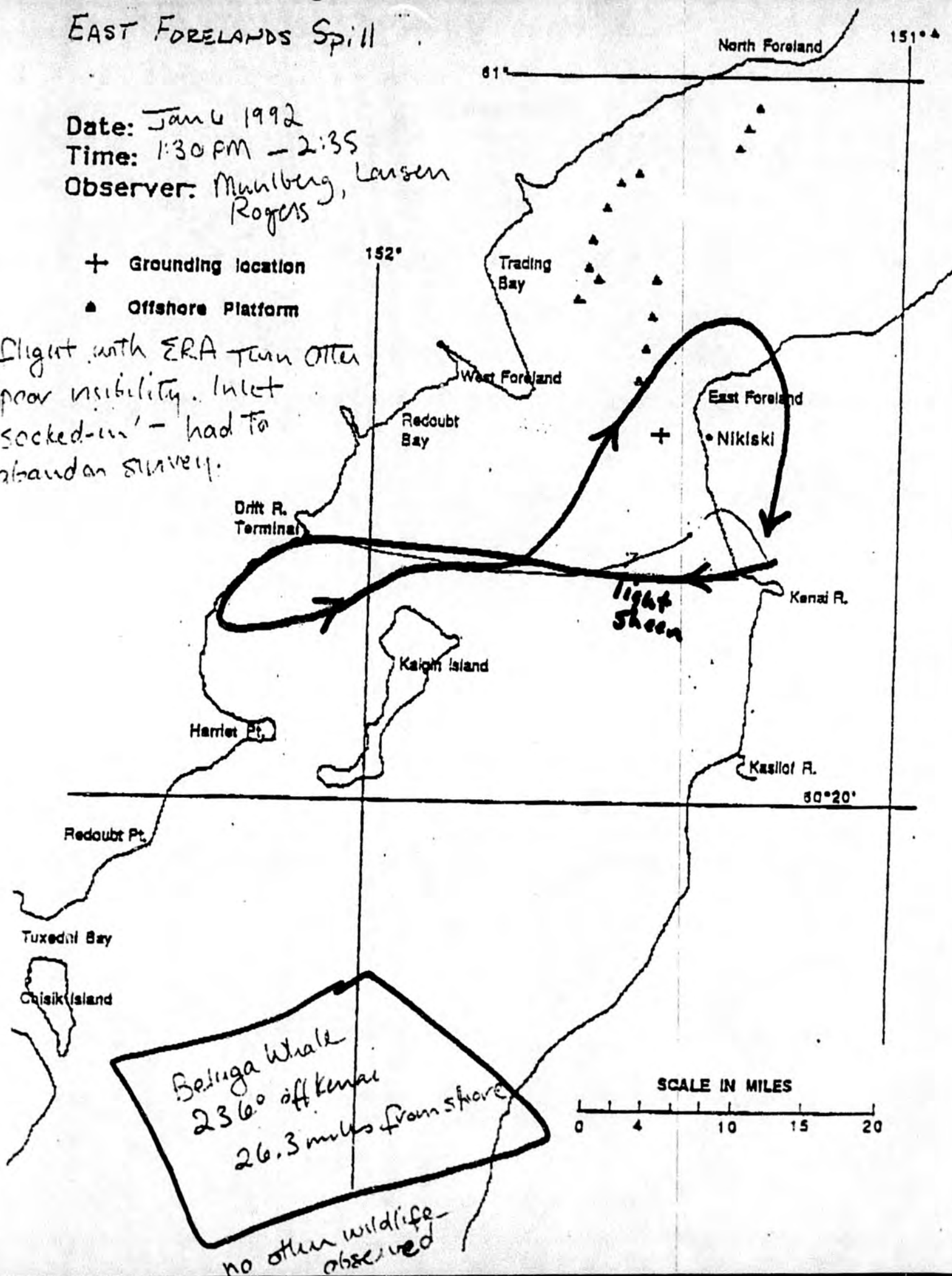
Time: 1:30 PM - 2:35

Observer: Muhlberg, Larsen
Rogers

+ Grounding location

▲ Offshore Platform

Flight with ERA Tern Otter
poor visibility. Inlet
'socked-in' - had to
abandon survey.



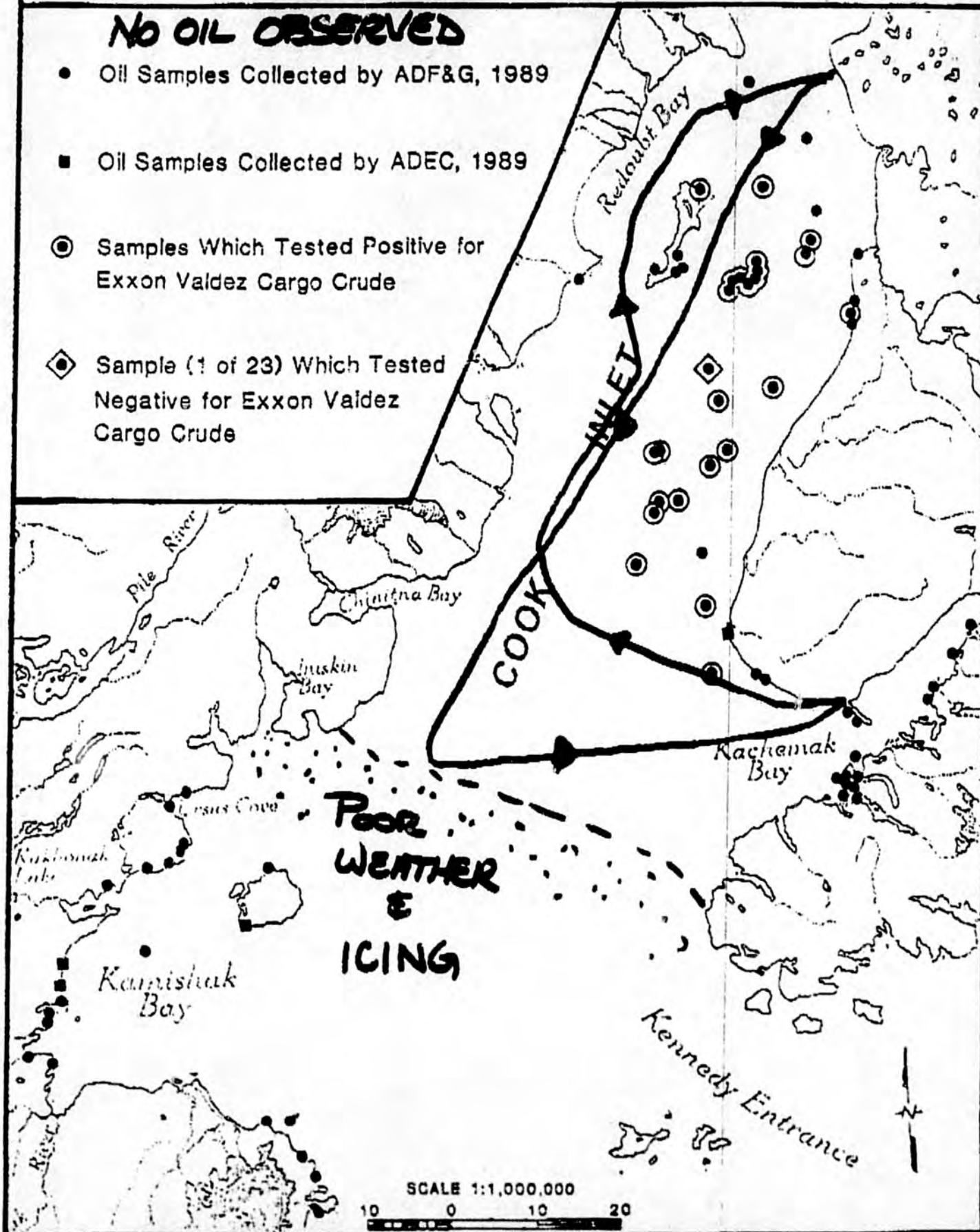
JANUARY 7, 1992 0930-1400

Oil Samples Collected in Upper Cook Inlet, 1989

HELO OVERFLIGHT

NO OIL OBSERVED

- Oil Samples Collected by ADF&G, 1989
- Oil Samples Collected by ADEC, 1989
- ⊙ Samples Which Tested Positive for Exxon Valdez Cargo Crude
- ◊ Sample (1 of 23) Which Tested Negative for Exxon Valdez Cargo Crude



~~COOK INLET~~

COOK INLET

~~JULY 1991~~

Date: 1-4-92

Time: depart 1005, return 1235

Observers: Gay Muhlberg ADF+G

(Sautner, Parker, Larsen, Rowkowski, etc. - 13 total)

altitude varied, approx. 500' AGL

200' - 1000'

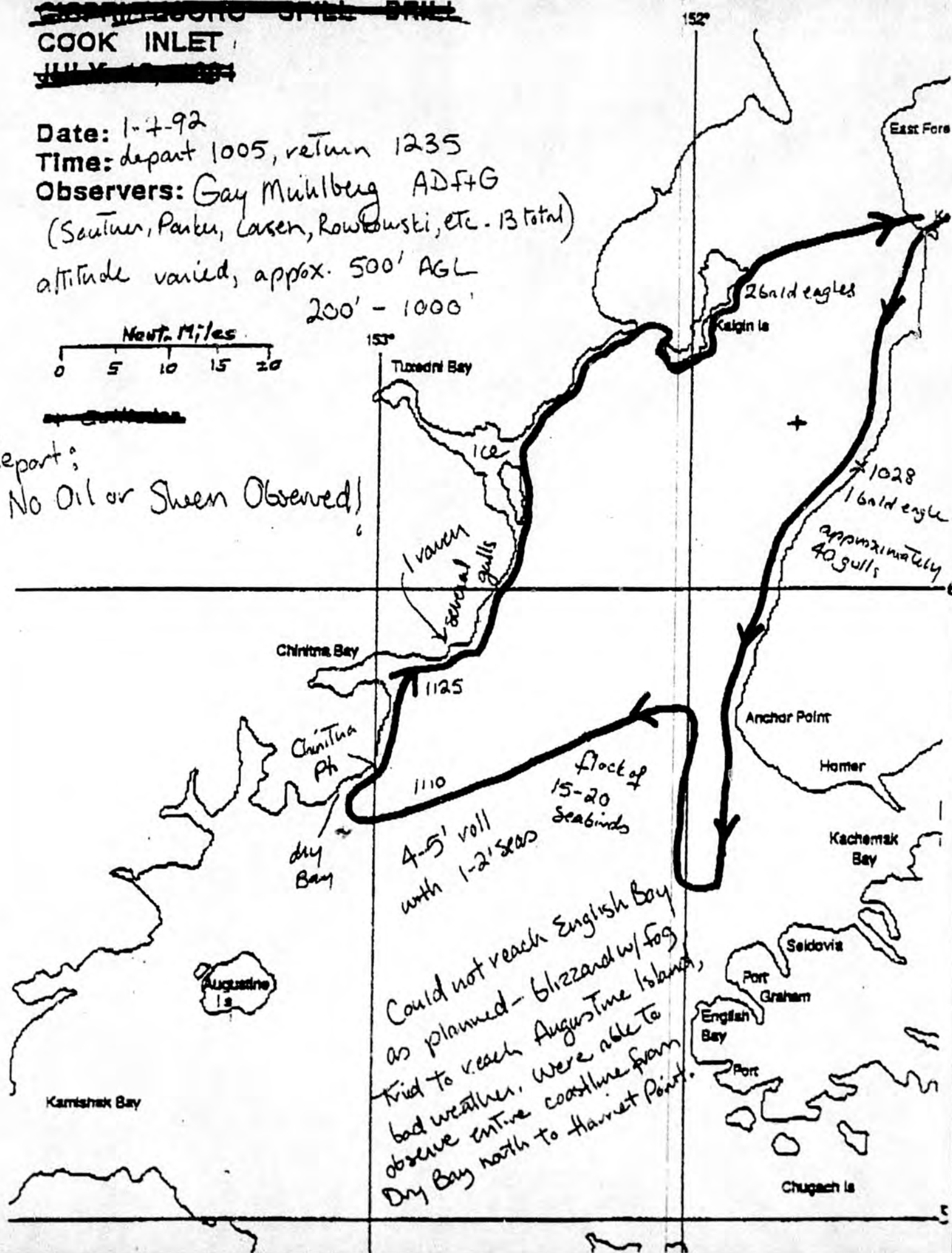
Naut. Miles

0 5 10 15 20

~~Continued~~

Report:

No Oil or Sheen Observed!



SENT BY:

1-14-92 : 8:57AM : ADEC KENAI DISTRICT-

DEC - SCRO:#11

Daily Overflight

EAST FORELANDS Spill

Date: 1.8.92

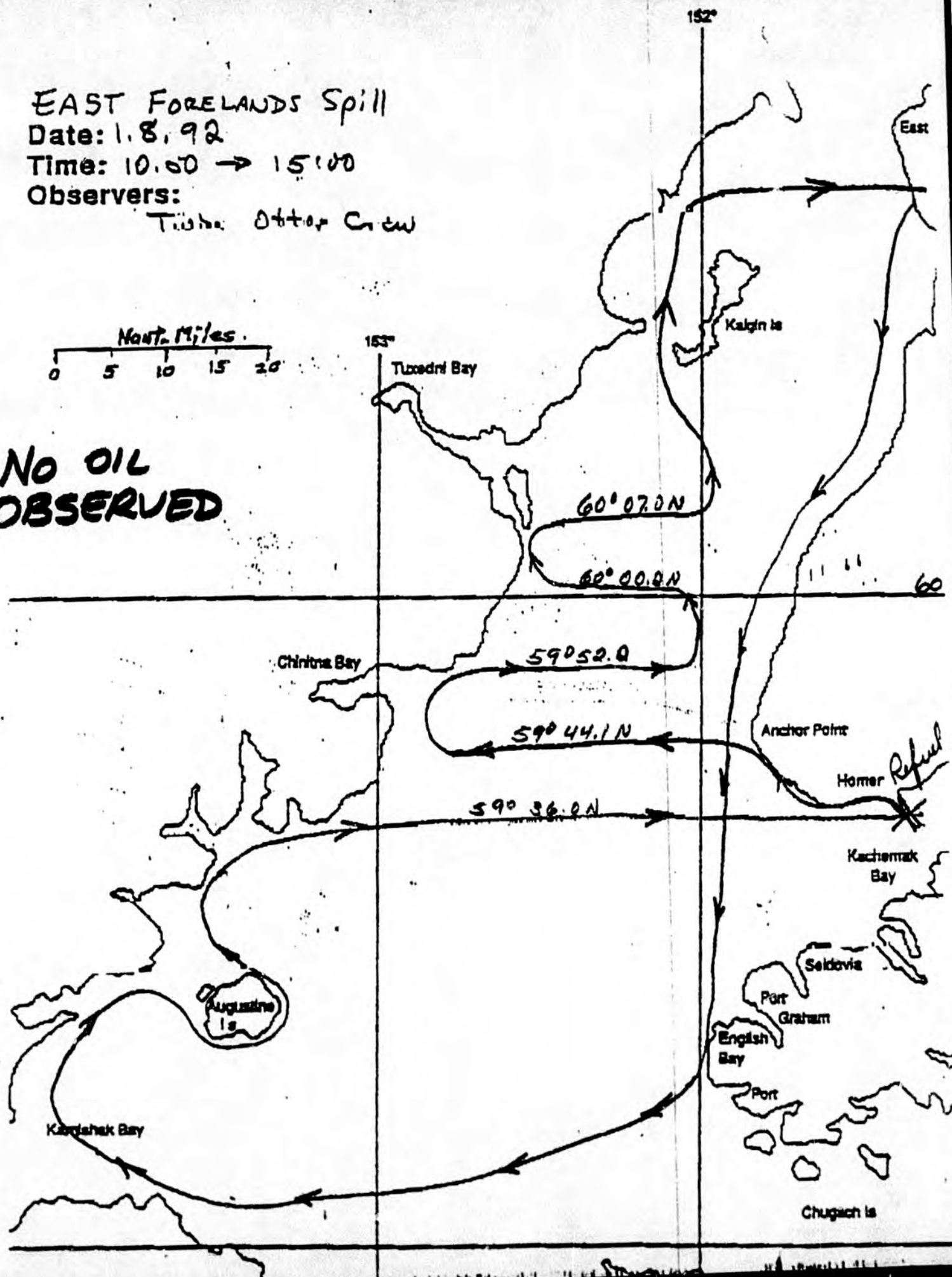
Time: 10.00 → 15.00

Observers:

Tiobe Ottor Crew

Naut. Miles
0 5 10 15 20

**NO OIL
OBSERVED**



RECEIVED JAN 10 1992



KENAI PIPE LINE COMPANY
BOX 5555
KENAI, AK 99611
MILE 22.5 N. KENAI RD.
(907) 776-8711

January 9, 1992

Representative Cliff Davidson
Room 108, Capitol
P.O. Box V
Juneau, AK 99811

Cliff

Dear Representative ~~Davidson~~:

This past weekend, on January 4th, a leak at the Kenai Pipe Line Company dock resulted in an oil spill to the Cook Inlet. I am aware of your interest in the performance of the oil industry to both prevent these incidents and to minimize the damage with a quick response and cleanup. I have enclosed a summary of the incident and cleanup for you and your staff.

These spills are potentially harmful and very costly. We were fortunate that the oil discharged was less than 171 barrels and that the Cook Inlet Spill Prevention Response Inc.(CISPRI) quickly utilized trained people and effective equipment to respond to the discharge.

The heat tracing system that caused the leak is being redesigned to prevent similar failures. We are also using the lessons learned during this response to improve the capability of CISPRI.

There will no doubt be those who will criticize our response to this incident. Oil discharged to the water creates one of our greatest challenges. The recovery of oil is not often done easily. However, the performance is improving and we can all recognize that effort. I hope from the enclosed summary and the news reporting about this spill, you will have a positive feeling about the improved spill response that exists in the Cook Inlet.

I will be in Juneau during the session as Chevron's legislative liaison. I hope we will have the opportunity to discuss this incident and that I can answer any questions you or your staff may have about it.

Sincerely,

Bob Williams
Manager, Kenai Pipe Line Company



KENAI PIPE LINE COMPANY

BOX 5555

KENAI, AK 99611

MILE 22.5 N. KENAI RD.

(907) 776-8711

**Cook Inlet oil spill cleanup is completed;
Kenai Pipe Line Co. thanks all involved**

Jan. 9, 1992 -- Cleanup operations of a crude oil spill in Alaska's Cook Inlet January 4 are completed, with no reports of damage to wildlife or shorelines. An estimate of total oil spilled has been revised downward to a maximum of 171 barrels (7,182 gallons) from an early estimate of 400 barrels (16,800 gallons). Latest figures indicate more than 40 percent of oil spilled has been recovered by skimming vessels. An estimate of cleanup costs is not yet available.

The spill occurred at 12:15 a.m. Saturday, January 4, at the Kenai Pipe Line Company marine terminal, during a transfer of an oil and water mixture between two storage tanks. A faulty heating element allowed water in the pipeline to freeze and burst a section of pipe, spilling oil and water into Cook Inlet.

Kenai Pipe Line Company accepted responsibility for the cleanup of oil spill during the accident. The company is owned by Arco and Chevron. Its dock is located about 11 miles north of Kenai and about 60 miles southwest of Anchorage.

Personnel from the Cook Inlet Spill Prevention Response Inc. (CISPRI), the oil industry's cleanup cooperative for the area, were on the scene within an hour of notification and began dispatching people and equipment to clean up the spilled oil. Representatives of the Coast Guard and the Alaska Department of Environmental Conservation (ADEC) also joined CISPRI and Kenai Pipe Line Company in the recovery efforts.

Two large skimming vessels, the Banda Seahorse and the Monarch, reached patches of oil in the Cook Inlet's midchannel tidal zone within hours of initial notification and worked throughout the cleanup operations. Helicopter flights over the inlet directed the skimmers to concentrations of oil and provided updated information to all organizations working on the cleanup.

At the height of activity, more than 100 people, three skimmers and eight fishing vessels were involved in cleanup efforts, with safety the highest priority. Plans developed to protect environmentally sensitive areas of Kalgin Island were not needed after no oil came ashore there.

Natural dispersion of the oil by winds and wave action further reduced the amount of oil on the water. Tidal channels kept the oil in the middle of the inlet, where skimmers pursued the fingers of oil moving with the tides.

By Tuesday morning, Jan. 7, observation crews were unable to find oil in Cook Inlet, and demobilization of personnel and equipment began in the afternoon. Vessels were cleaned and returned to their home bases. The two largest skimmers will be the last to demobilize.

Bob Williams, Kenai Pipe Line Company Manager, said the company wants to thank the Coast Guard, ADEC and CISPRI for all their cooperation and assistance during the cleanup efforts. "I think it has been an outstanding joint agency/industry effort to conduct an efficient and safe recovery of the oil spilled in this accident."

PREVENTION, RESPONSE, OPERATIONS & SAFETY

MEMORANDUM:

TO: PROPS COMMITTEE
FROM: LARRY SMITH
DATE: JANUARY 8, 1992
RE: PROPS COMMITTEE AGENDA

In light of the East Foreland spill incident of January 4, 1992, it is my opinion that the PROPS Committee should promptly review the response effort initiated by Kenai Pipeline Company, Chevron & CISPRI. A PROPS Committee meeting has been scheduled for January 17th & 18th at 9:00 A.M. to commence this work.

Emphasis must be placed on development of Cook Inlet RCAC's plan for actual spill & simulated spill drill monitoring. The failure of the Committee Chair to prioritize a product of the Spill Drill Working Group is unfortunate. It is now my #1 priority and I am joining the Spill Drill Working Group. In the proximate spill, effective use of staff by the Executive Director to monitor the response has put us in a good position to understand and review response events. Pursuant to the directive of the Executive Director, staff is compiling a chronological summary of the spill response. Additionally, Glen Glenzer, Frank Mullen, Loren Flagg and I were afforded an opportunity to observe the response effort.

Due to the lack of Hazwoper training Cook Inlet RCAC representatives were denied access to response vessels and beach impact surveys, however, representatives of Cook Inlet RCAC were afforded an opportunity to participate in overflight missions. The PROPS Committee should investigate and ascertain what certifications are required for all levels of participation/observation in an actual spill response.

Presently access agreements with companies and agencies have not been developed by Cook Inlet RCAC. Signed access agreements are essential to effective monitoring and must be prioritized as an integral component of the working groups mission.

A broad range of questions were presented during the spill response. The following is a preliminary list of issues that should be addressed by the PROPS Committee:

- * Effectiveness of tracking buoys?
- * Verification of spill size and recovered quantities?

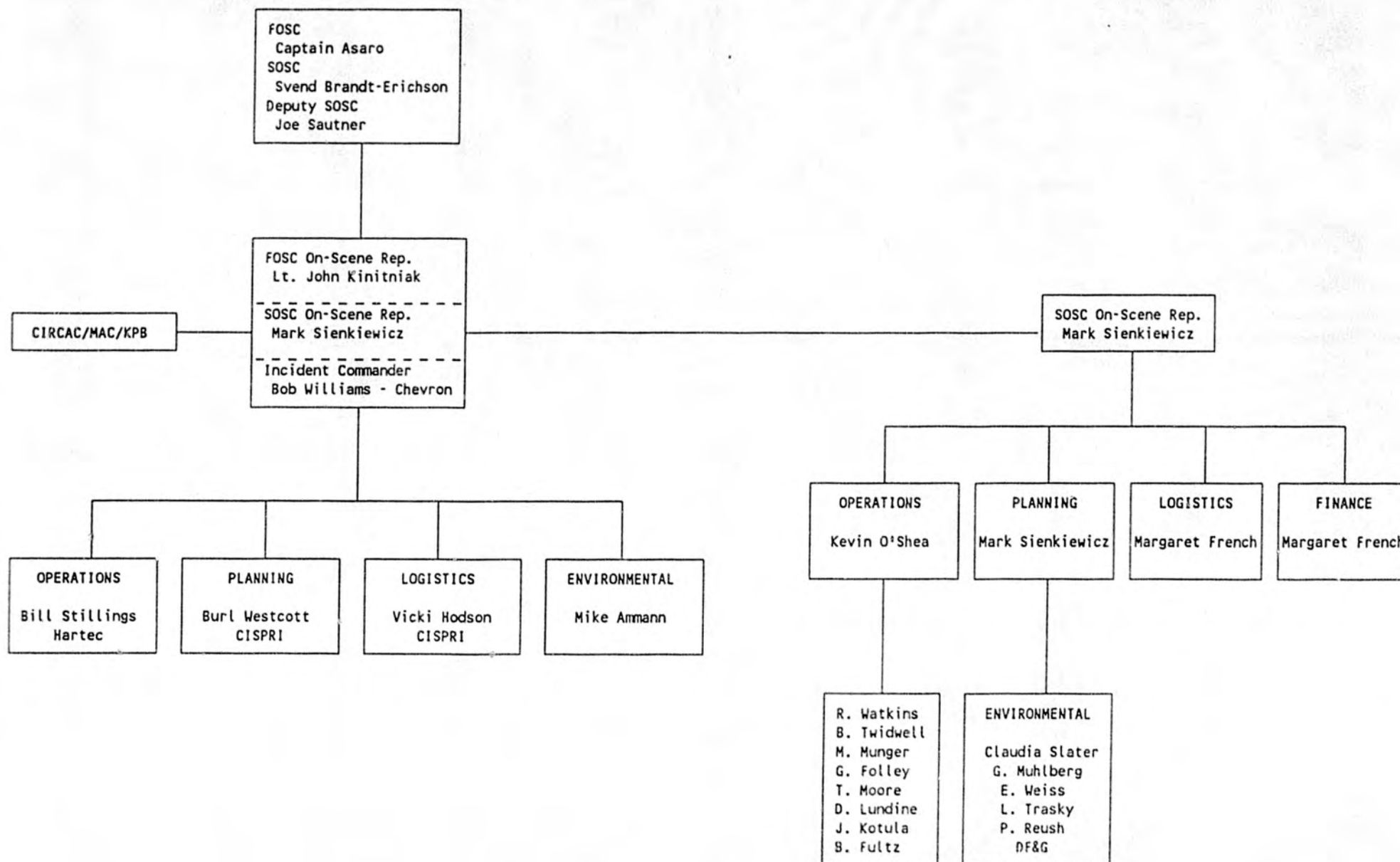
- * Determination of what product(s) were discharged?
- * Was appropriate & timely notice made?
- * Was agency response timely and adequate?
- * Was KPL's and CISPRI's response timely and adequate?
- * Should the CISPRI Barge 401, the Champion and fishing vessels been deployed on Day One.
- * In what way did the response differ from C Plans?
- * Were the problems and issues identified in the "Evaluation of the Spill Drills Of August 15th & 16th" resolved prior to the spill incident?
- * Are CISPRI's response tools properly located and equipped? What would have been the effect if this spill had occurred at Drift River in adverse weather conditions?
- * If condition would have been severe instead of benign would oil have been recovered?
- * Why was *In-situ* burning not pursued?
- * Why did the dispersant test application of two (2) buckets of CROEXIT fail?
- * What risks to response worker health and safety were created by the spiller?
- * What should KPL have done to prevent this spill?
- * What should agencies have done to prevent this spill?
- * What could Cook Inlet RCAC have done to prevent this spill?

This is an preliminary memo. I am working on a proposed spill response plan for our group and an expansion of this memo.

If you have further question or if I may by of assistance, please do not hesitate to contact my office. I hope you will be able to attend the next meeting and look forward to your participation.

LLB/llb/P: Spill Drill W.G.

KENAI PIPELINE SPILL
INCIDENT COMMAND SYSTEM
"UNIFIED COMMAND"



Methods to be used - Open water skimming operations

Responsible party -Chevron - Kenai Pipeline Company

Potential for escalation: Response has escalated in last 12 hours due to potential for beach impacts and deteriorating weather. This escalation is not expected to last more than a few days because of the limited amount of product involved.

Personnel to be notified: Six additional staff from SCRO and the Pipeline Region have been sent to Kenai in the last 24 hours to assist in the oversight of the cleanup.

Other Comments: Two vessels, the Monarch and Banda Seahorse continued skimming operations during the day. Industry estimates are still at about 6,500 gallons of product recovered. Additional mechanical recovery efforts are underway.

A dispersant test was conducted this A.M. The test was to involve about 300 gallons dispersed by helicopter. Apparently, the dispersant froze up in the hose applicator and was prevented from being discharged. No dispersant reached the water and no further dispersant tests are planned at this time.

Equipment is beinn mobilized for defensive booming of certain areas of Kalgin Island should the oil move that way. The boom will not be deployed unless necessary. DEC has about 10-12 staff involved on-site at this time. No additional staff are necessary at this time.

SITUATION REPORT:

Date of Report: 1/5/92

I.C.S. Office:

Incident Commander... Joe Sautner
O.S.C.....Mark Sienkiewicz
Logistics.....Margaret French
Planning.....Mark Sienkiewicz
Operations.....Kevin O'Shea
Administration.....Margaret French
Staff
PIO.....Debby Bloom
Liaison Officers
GLO.....N/A
CLO.....N/A
Legal Officer.....N/A
Safety Officer....Kevin O'Shea
Environmental.....Gay Moulberg ADF&G

Cause of spill plus types and quantity of material spilled:
Initial indications are that the spill occurred as a result of a pipeline rupture at the Kenai Pipeline Dock in Kenai. Cause of the rupture is unknown. The pipeline contained a mix of water and Alaska North Slope crude oil. About 1600 barrels of fluid is estimated to have leaked out. About 400 barrels is estimated to be pure crude oil. As of 1700 hrs on 1/5 the heavies concentration of oil was to the east of Kalgin Island. The oil was concentrated in two tide rips 2 and 5 miles east of the island. The oil was defined as "ribbons" about 300 yards wide and 10-15 miles long and broken.

Potential hazards: Possible shoreline impacts at Kalgin Island by tomorrow morning depending on weather.

Agencies notified: DES-message left with security
USCG -Local Kenai Office
ADF&G -Claudia Slater
ADOP/PF -
ADNR - no contact
ADCRA -
USEPA -
USPHS -
AG -Breck Tostevin

Coordinating local officials: Kenai Borough and CIRCAC have been notified

Containment and Clean-up:

Feasibility - Mechanical cleanup continues with efforts now concentrating in the tide rips along Kalgin I. Weather is deteriorating and could impact cleanup efforts.

ADNR-Kris O'Connor
ADCRA-
USEPA-
USPHS-
AG-Breck Tostevin

Coordinating local officials: Kenai Borough and CIRCAC remain involved.

Containment and Clean-up: Demobilization underway.

Responsible party - Chevron Kenai Pipeline Company

Potential for escalation: At this time, little potential for escalation exists.

Personnel to be notified: No additional

Next SITREP: PM 1/8/92

Comments: Spill monitoring operations to continue. An advisory will be sent out by DEC to notify area residents to contact Kenai Pipeline Co. or DEC in the event they find any oil or tarballs in the area.

End Report

SITUATION REPORT: Chevron/Kenai Pipeline Sit-Rep #6
SPILL # 92-231-004-1

Date of Report: January 7, 1992 - 1600L

I.C.S. Office:

Incident Commander.	Joe Sautner
O.S.C.	Mark Sienkiewicz
Logistics.	Margaret French
Planning.	Mark Sienkiewicz
Operations.	Kevin O'Shea
Administration.	Margaret French
Staff	
PIO	Debby Bloom
Liaison Officers	
GLO	Kevin O'Shea
GLO	Kevin O'Shea
Legal Officer	N/A
Safety Officer	Kevin O'Shea
Environmental	Gay Moulberg (ADF&G)

Situation: Today's overflight revealed no recoverable concentrations of oil. The entire affected area of mid and southern Cook Inlet was surveyed from the air with only small areas of patchy sheen observed. The beach survey crew on Kalgin Island did not observe any shoreline impact. Both overflights and beach surveys will be continued tomorrow, weather permitting, to confirm today's findings.

Based on today's information, offshore mechanical cleanup operations have been discontinued and demobilization of cleanup operations have begun. Some skimmers will remain in standby status for a few days in the event new areas of oil are detected.

Cause of spill plus types and quantity of material spilled:

The cause of the pipeline rupture is still unknown and under investigation. The industry estimate of the quantity of product spilled has been downgraded to 171 bbls with about 70 bbls recovered. Analysis has confirmed spilled product to be North Slope crude oil.

Potential hazards: Beach survey crews on Kalgin Island observed no beach impacts. Discovery of significant shoreline impacts is considered unlikely at this time. No other potential hazards are foreseen at this time.

Agencies notified:

DES-message left with security
USCG-Local Kenai Office
ADF&G-Claudia Slater
ADOP/PF

Coordinating local officials: Kenai Borough and CIRCAC remain involved.

Containment and Clean-up: Demobilization underway and should be completed within 48 hours. Response vessel decon in progress with offload of recovered product imminent.

Responsible party - Chevron Kenai Pipeline Company

Potential for escalation: At this time, little potential for escalation exists.

Personnel to be notified: No additional

Next SITREP: As significant information dictates or final SITREP upon the discontinuation of response operations.

Comments: Overflights to continue. Joint USCG & DEC press conference to be held tomorrow at 1100.

End Report

SITUATION REPORT: Chevron/Kenai Pipeline Sit-Rep #7
SPILL # 92-231-004-1

Date of Report: January 8, 1992 - 1600L

I.C.S. Office:

Incident Commander.	Joe Sautner
O.S.C.	Mark Sienkiewicz
Logistics.	Margaret French
Planning.	Mark Sienkiewicz
Operations	Kevin O'Shea
Administration.	Margaret French
Staff	
PIO	Debby Bloom
Liaison Officers	
GLO	Kevin O'Shea
GLO	Kevin O'Shea
Legal Officer	N/A
Safety Officer	Kevin O'Shea
Environmental	

Situation: Today's overflight and beach survey revealed no recoverable concentrations of oil. The entire affected area of mid and southern Cook Inlet was surveyed from the air with no free product or sheen observed. The west shoreline of Cook Inlet, from West Foreland to Redoubt Point, was surveyed with no shoreline impact observed. An overflight is scheduled for tomorrow, weather permitting. Beach surveys have been discontinued.

Cause of spill plus types and quantity of material spilled:

The cause of the pipeline rupture is still unknown and under investigation. The industry estimate of the quantity of product spilled remains at 171 bbls with an updated figure of approximately 136 bbls of emulsified oil/water mix recovered.

Potential hazards: None foreseen at this time.

Agencies notified:

- DES-message left with security
- USCG-Local Kenai Office
- ADF&G-Claudia Slater
- ADOP/PF
- ADNR-Kris O'Connor
- ADCRA-
- USEPA-
- USPHS-
- AG-Breck Tostevin

Responsible party - Chevron Kenai Pipeline Company

Potential for escalation: At this time, little potential for escalation exists.

Personnel to be notified: No additional

Next SITREP: PM - 1/10/92, SITREP #9 & Final

Comments: Final joint USCG & DEC press conference was held today.

End Report

SITUATION REPORT: Chevron/Kenai Pipeline Sit-Rep #8
SPILL # 92-231-004-1

Date of Report: January 9, 1992 - 1500L

I.C.S. Office:

Incident Commander.	Joe Sautner
O.S.C.	Mark Sienkiewicz
Logistics.	Margaret French
Planning.	Mark Sienkiewicz
Operations.	Mark Sienkiewicz
Administration.	Margaret French
Staff	
PIO	Debby Bloom
Liaison Officers	
GLO	
GLO	
Legal Officer	
Safety Officer	
Environmental	

Situation: No overflight was conducted today. An overflight is scheduled for tomorrow. Decon continues.

Cause of spill plus types and quantity of material spilled:

The cause of the pipeline rupture is still unknown and under investigation. The industry estimate of the quantity of product spilled remains at 171 bbls with an updated figure of approximately 136 bbls of emulsified oil/water mix recovered.

Potential hazards: None foreseen at this time.

Agencies notified:

DES-message left with security
USCG-Local Kenai Office
ADF&G-Claudia Slater
ADOP/PF
ADNR-Kris O'Connor
ADCRA-
USEPA-
USPHS-
AG-Breck Tostevin

Coordinating local officials: Kenai Borough and CIRCAC remain involved.

Containment and Clean-up: Response equipment decon in progress. The disposal options for oily waste are currently being discussed with the responsible party.