



P. O. BOX 196660, ANCHORAGE, ALASKA 99519-6660 TELEPHONE (907) 787-8556 FAX (907) 787-8924

Kevin M. Hostler
President & Chief Executive Officer

April 25, 2006

The Honorable John Dingell
Ranking Member, House Committee on Energy and Commerce
United States House of Representatives
Washington, D.C. 20515

The Honorable George Miller
Member, House Committee on Resources
United States House of Representatives
Washington, D.C. 20515

Dear Congressman Dingell and Congressman Miller:

Thank you for your recent letter. Alyeska shares your interest in the safety and security of the nation's energy transport infrastructure with respect to the Trans Alaska Pipeline System (TAPS). The issues outlined in this letter are important to Alyeska management, our employees, and all of Alyeska's stakeholders including Alaska's Congressional Delegation.

As with any significant operational incident within Alaska's oil industry, when Alyeska learned of the spill on the North Slope we initially offered our expertise and equipment to the spill responders. We recently received a copy of the final draft investigation report from BP and we will be carefully reviewing the information to determine if any changes are needed for our integrity management program or related operating procedures. While Alyeska's current integrity management program is highly effective, we are always pursuing ways to improve it and learn from others.

Integrity Management is an important priority area for me. Alyeska recently conducted a best practices workshop with technical experts from the TAPS Owners and I have offered our resources to work with Governor Frank Murkowski's integrity management task force.

The Federal Grant from the Department of Interior and State Lease require Alyeska to have a comprehensive corrosion control program. Our corrosion management program receives extensive monitoring by the Joint Pipeline Office to ensure we are meeting its requirements in addition to those of the federal Department of Transportation. Corrosion control is one piece of our overall Integrity Management Program. Alyeska's program has the following objectives:

The Honorable John Dingell
The Honorable George Miller
April 25, 2006
Page Two

- Prevent leaks to protect public safety and the environment
- Comply with State and Federal regulations
- Manage risks – assess, prevent, or mitigate
- Preserve our assets thus providing reliable oil transportation
- Provide stakeholder assurance

The important point is that we have a comprehensive, systematic, and documented approach to integrity management, including corrosion monitoring and mitigation that is audited, both internally and externally.

In response to the questions raised in your letter, we offer the following answers:

1. *What knowledge do Alyeska officials have regarding the additive(s) that some in BP are suggesting has caused severe and rapid onset of corrosion on the main oil transit line (OTL) which recently leaked? Does Alyeska use any of such additives on its own line? If so, was corrosion at all associated with its use? Are these additives tested prior to use to insure that they do not have corrosive properties?*

A. As noted above, we are currently evaluating BP's final draft investigation report and it would be premature to determine the implications of any additives for Alyeska at this point. The two additives used in the operation of TAPS are corrosion inhibitor and drag reducing agent (DRA). These additives do not cause a corrosive effect. The corrosion inhibitors are used to mitigate corrosive characteristics common to all crude oils. Prior to the public reports of the BP spill, Alyeska was unaware of the additives that BP referenced in its letter to you. BP has recently provided us with copies of material safety data sheets (MSDS) for the chemicals it introduces into the crude oil in Prudhoe Bay. We have reviewed the MSDS provided by BP. The MSDSs that were provided to us included a scale inhibitor, a corrosion inhibitor, a demulsifier, and a defoamer. We have reviewed the MSDS provided by BP, and the MSDS sheets do not indicate that any of these chemicals are corrosive in nature. All but one additive referenced in the MSDS sheets is related to production activities and would not be used by TAPS. One of the MSDS sheets described is a corrosion inhibitor similar to that used by TAPS, which does not cause corrosion.

2. *Has Alyeska determined if the additives used by BP on the OTL had any impact on TAPS, and if so, how and when was this determined?*

A. As we are still reviewing and evaluating the final draft report about the spill and its causes, it is premature to discuss the role of additives in the BP spill and possible impact to TAPS. Alyeska is aware that chemical additives are used routinely in oil-field processing. We do not perform a physical analysis for the presence of additives, nor do we require such disclosure to us. Since our very recent learning of the possible risk of rapidly increased corrosion rates as seen in the BP spill, we have taken steps to ensure that we have a thorough understanding of this potential and are evaluating any possible next steps.

A significant mitigating factor with respect to the crude oil in TAPS is that the crude oil from BP's Prudhoe Bay Gathering Center Facility 1 is commingled with crude from other North Slope fields. The commingled stream enters TAPS at a velocity sufficiently high enough to keep water entrained in the crude oil. This prevents free water from settling out and creating an environment in which potential corrosion issues may develop. As a precautionary detection measure, I am accelerating our corrosion "smart" pig run that had been scheduled for 2007 to now perform that run this year. Additionally, we run cleaning pigs that clean any sediment, and wax from the pipe wall on a regular basis.

3. *Was Alyeska informed that additives would be added to upstream operations which could have some impact on the integrity of the TAPS? Is it common operator procedure to inform Alyeska of activities on feeder lines that may impact TAPS operations? If so, how was this done in this case?*

A. Alyeska was not aware of the introduction of these additives to the Prudhoe Bay field crude stream; however, as stated above we are generally aware that additives are used and we do not require disclosure, nor do we routinely receive information from the North Slope field operators on crude oil stream characteristics. We do routinely meet with them to discuss operational issues, like oil field or TAPS shutdowns for maintenance to attempt to find complementary timing. In addition, the fields routinely tell us of changes in flow rates or when they have operational upsets.

4. *What are Alyeska's methods (smart and maintenance pigging, etc.) and frequency of testing for corrosion on TAPS?*

Alyeska does several specific things to prevent, identify, and manage corrosion:

Prevention

- A cleaning pig is run along the length of TAPS every seven to fourteen days. This tool removes wax or other deposits that may accumulate on the mainline pipe walls.
- Corrosion inhibitor is injected in the deadlegs at the pump stations and Valdez Marine Terminal every two weeks. Pipes inside the Pump Stations that have no flow or stagnant areas are called deadlegs.
- Buried pipeline sections are coated and wrapped with tape to protect the steel from the environment. (Aboveground pipe has minimal external corrosion risk.)
- A cathodic protection (CP) system passively and actively protects the pipe's exterior from corrosion. The passive system uses sacrificial zinc and magnesium anodes which preferentially corrode and protect the pipeline (similar to the zinc anodes in home water tanks). The active system applies electrical current to the pipeline to prevent corrosion. There are 680 CP coupons and 1018 CP test stations placed along the pipeline to provide a quick way to measure CP levels. All of these are monitored annually.

Detection

- A corrosion pig is run through the pipeline every three years. If there is evidence to suggest that a shorter interval is needed, more frequent runs can be performed. In the 29 years of TAPS operation, 60 instrumented pigs have been run. The most recent pig, run in 2004, provided over 99% pipe coverage.
- We have had a deadleg corrosion program since the early 1990's. This program includes a manual ultra sonic inspection of the dead legs on a regular basis. The frequency of the investigations are based on engineering analysis and calculated corrosion growth rates.
- Cathodic protection monitoring including CP coupons and close interval survey verifies the system data. This technique measures the electrical potential between the pipe and the surrounding soil to verify the CP system is working properly and meets National Association of Corrosion Engineers (NACE International) recommended practice. This survey is performed on one-third of the pipeline each year.
- Our facilities corrosion monitoring program includes the use of coupons to assess and monitor internal corrosion rates.

Corrosion Management

- Engineers use smart pig data to recommend pipeline repairs in advance of the DOT-mandated repair thresholds. The 2004 pig resulted in only six locations requiring further investigation.
- Areas not meeting NACE CP criteria are electrically adjusted and resurveyed the following year.
- Areas chronically failing to meet CP criteria are mitigated by capital improvements.
- Corrosion inhibitor injection in dead legs.

I appreciated the opportunity to discuss these issues directly with Chris Knauer while he was in Alaska the week of April 10th and I appreciated the discussions I had with Jeff Petrich while he was in Alaska at the end of January. We introduced Jeff and Chris to some of the professionals we employ to safely and successfully run TAPS and hope they can convey to you the dedication of our workforce.

In conclusion, it's important to point out that Alyeska operates its Integrity Management program through a controlled document (IM-244) titled, "TAPS Integrity Management Program for High Consequence Areas". I have read the entire document and am impressed by the breadth and depth of our program. If you are interested in reviewing a copy of the program, I would be happy to send it to you. This document is subject to periodic inspections by the U.S. Department of Transportation as a part of our DOT regulatory program.

The Honorable John Dingell
The Honorable George Miller
April 25, 2006
Page Five

I would be happy to update you on any developments relative to the operation of TAPS during my quarterly visit to Washington, DC. I will visit DC again before the end of June. In the meantime, if I can provide additional information about operating TAPS, please call me at (907) 787-8556.

Respectfully,

A handwritten signature in black ink, appearing to read "Kevin M. Hostler". The signature is fluid and cursive, with a long horizontal stroke at the end.

cc:

The Honorable Ted Stevens
The Honorable Lisa Murkowski
The Honorable Don Young
The Honorable Joe Barton, Chair, House Committee on Energy and Commerce
The Honorable Frank Murkowski, Governor of Alaska
Henry Bisson, State Director, Bureau of Land Management
Jerry Brossia, Joint Pipeline Office
Mike Thompson, Joint Pipeline Office
The Honorable Brigham McCown, Acting Administrator, U.S. DOT Pipeline and Hazardous
Materials Safety Administration
Stacey Gerard, Associate Administrator of Pipeline Safety, U.S. DOT Pipeline and Hazardous
Materials Safety Administration