

Summary of Testimony to the U.S. House of Representatives
Committee on Energy and Commerce,
Subcommittee on Oversight and Investigations

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“2006 Prudhoe Bay Shutdown: Will Recent Regulatory Changes and BP
Management Reforms Prevent Future Failures?”

In response to the spill and shutdown events of 2006 in the Prudhoe Bay Unit, the state of Alaska has taken two major actions to prevent future failures:

1) New regulations have been adopted by the Alaska Dept. of Environmental Conservation to address flow lines, the pipelines between the well and the production facility.

2) The Petroleum Systems Integrity Office (PSIO) has been established as the lead agency for oversight of oil and gas facilities and infrastructure maintenance, and federal, state and local coordination.

While introductory meetings with the U.S. Army Corps of Engineers and the U.S. Coast Guard in Alaska have been held, our primary coordination efforts at the federal level are with the U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA). The state of Alaska and PHMSA recently established a Letter of Intent which documents our mutual commitment to work cooperatively on eleven major items contributing to effective oil and gas oversight.

Two primary tasks are required of the PSIO: 1) a regulatory gap analysis is underway to avoid duplication of effort and to ensure no gaps remain in oversight of oil and gas infrastructure, equipment and facilities; and 2) assessment and approval of unit operators' Quality Assurance programs is required to determine adequacy with established regulatory standards and industry guidelines. Approval of the operators' Quality Assurance programs will establish the basis for downstream compliance activities.

Alaska is the only state to require operators to allow inspections of their maintenance practices, on their own facilities and infrastructure.

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Chairman Stupak, Representative Whitfield, Vice Chairman Melancon, and distinguished members of the Committee. Thank you for the opportunity to appear today. My name is Jonne Slemons; I am the Acting Coordinator of the State of Alaska's Petroleum Systems Integrity Office.

In March 2006, pipeline corrosion in the Prudhoe Bay Unit led to the spill of 267,000 gallons of oil from a transit line onto the tundra. Five months later, a different transit line on the same unit leaked 735 gallons onto the tundra. After the August spill, BP determined that the Prudhoe field, which accounts for 8 percent of domestic output, had to be partially shut down, reducing by half the field's production of 400,000 barrels of oil a day, directly affecting gasoline prices nationwide, and costing the state of Alaska approximately a million dollars a day.

BP acknowledged problems when the leaks were discovered that called into question their assumptions regarding corrosion monitoring. Kemp Copeland, BP's Greater Prudhoe Bay field manager, stated, "Clearly in hindsight, we would have been doing some things different with those old transit lines."

Those events have been carefully investigated, remedial actions are underway, and the flow of oil has resumed. But the spills and shutdown demonstrated to the state and to the nation that preventive safeguards in both operator performance and governmental oversight were lacking. I would like to

describe to you the actions being instituted by the State of Alaska in response to those events.

First, the Department of Environmental Conservation has promulgated regulations for oversight of flow lines upstream of the separation facilities, pipelines not regulated by the Pipeline and Hazardous Materials Safety Administration (PHMSA) of the U.S. Department of Transportation. Those regulations were approved shortly after the events of 2006, and are now in phased implementation, with full implementation scheduled for 2009.

Second, and on a much broader scale, on April 18th Alaska's Governor, Sarah Palin, signed Administrative Order 234, which created the Petroleum Systems Integrity Office or PSIO. We believe that the PSIO will have a significant and long-term effect on preventing future incidents such as those described above.

The PSIO resides within Alaska's Division of Oil and Gas, a Division of the Alaska Department of Natural Resources. The Division of Oil and Gas conducts oil and gas lease sales, issues oil and gas leases, performs royalty accounting, administers the creation and operation of oil and gas units, approves surface activities and facilities, conducts reviews to ensure protection of coastal resources, and routinely inspects facilities to ensure compliance with lease terms and stipulations. Traditionally, the Division has not engaged in review, approval or inspection of maintenance programs or practices. As is common throughout the country, the Division has relied on the "enlightened

self interest” of operators to maintain their equipment properly in order to maximize the safe and continuing production of oil and gas resources.

The events of 2006 in the Prudhoe Bay Unit taught us that we cannot rely on “enlightened self interest” to ensure that prudent maintenance practices are carried out. We also learned of several regulatory gaps in oversight of oil and gas infrastructure. The PSIO addresses these findings.

Governor Palin’s Administrative Order established the following:

- that the PSIO is established within the Division of Oil and Gas, the State’s landlord and therefore the body responsible for ensuring that state leases are properly maintained. The PSIO will facilitate coordination of division management with other agencies, and will utilize the broad authorities vested in the Division through our oil and gas leases.
- that the Alaska Department of Natural Resources Commissioner shall be the lead official for communication and coordination with all federal agencies relative to oversight of oil and gas exploration, production and transportation on state lands.
- that the Coordinator of the PSIO shall be the lead official in exercising oversight of maintenance of oil and gas facilities, equipment and infrastructure.
- that designated state agencies, coordinated by the PSIO, shall participate in interagency activities and provide technical

assistance as requested by the PSIO. The designated state agencies are the Alaska Departments of:

- Environmental Conservation
- Fish and Game
- Public Safety
- Revenue
- Transportation and Public Facilities
- Labor and Workforce Development
- Law
- Natural Resources, including
 - Office of Habitat Management and Permitting
 - Office of Project Management and Permitting
 - Division of Mining, Lands and Water
 - State Pipeline Coordinator's Office
- Alaska Oil and Gas Conservation Commission
- Director, Governor's Office, Washington, D.C.

In regard to the PSIO's coordination with federal agencies, we have conducted introductory meetings with the U.S. Coast Guard, the U.S. Army Corps of Engineers, and the Pipeline and Hazardous Materials Safety Administration (PHMSA) of the U.S. Department of Transportation. Further, we have established a Letter of Intent with PHMSA to document our mutual commitment to work cooperatively in the regulation and oversight of oil and gas production and transportation in Alaska. As part of the agreement, the State and PHMSA will delineate clear jurisdictional roles and develop a unified strategic plan for the oversight of oil and gas production and transportation,

including risk assessment, standards, inspections, and overall, communication.

In addition to coordinating the efforts of state agencies and providing a point of contact for federal and local government coordination, the Administrative Order also directs specific actions. Two primary tasks were identified as a starting point:

1. a regulatory gap analysis, which will assess the authorities and practices of state and federal agencies regarding oversight of oil and gas facilities to avoid duplication and identify any regulatory gaps; and
2. the evaluation and approval of operators' maintenance and oversight programs, including inspections to ensure compliance with the approved programs.

The regulatory gap analysis is underway. When it is complete, the PSIO will commence the assessment of operators' maintenance programs, beginning with that of the Prudhoe Bay Unit. I expect both of these efforts to be substantially completed within the calendar year. Follow-up tasks, such as development of regulations to address oversight gaps and assessment of the Quality Assurance programs of other oil and gas units, will be designed and implemented based upon the results of the gap analysis and initial maintenance assessment.

Alaska is the only state in the country to require industry to allow regulator access to operator facilities in order to ensure compliance with their own maintenance programs. We look forward to breaking this new ground, and to cooperative efforts with our federal partners, and in doing so, protecting the environment while maximizing the safe and stable flow of our oil and gas resources to the nation.

Thank you.