

STATE OF ALASKA

SARAH PALIN, GOVERNOR

DEPT. OF ENVIRONMENTAL CONSERVATION DIVISION OF SPILL PREVENTION AND RESPONSE INDUSTRY PREPAREDNESS PROGRAM

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January 6, 2009

Mr. Richard A. Fineberg
Alaska Wilderness League
122 C Street NW, Suite 240
Washington, DC 20001

Ms. Pamela A. Miller,
Northern Alaska Environmental Center
830 College Road
Fairbanks, AK 99701

Mr. Dan Lawn
Alaska Forum for Environmental Responsibility
P.O. Box 188
Valdez, AK 99686

Re: Response to Letter Dated November 4, 2008

Dear Mr. Fineberg, Ms. Miller, and Mr. Lawn:

We appreciate receiving your comments on the Alaska Risk Assessment of Oil & Gas Infrastructure (ARA) Project as transmitted in your letter dated November 4, 2008. As you are aware, we have been engaged in a Stakeholder Consultation process that has been soliciting specific Stakeholder input for use by the technical project team in developing the risk assessment methodology.

Your letter provided general comments, questions, and recommendations, with three specific subject areas that are centered on the overall execution of the ARA Project. The intent of this letter is to provide a formal response to the comments, questions, and recommendations raised in your letter, and to help clarify these issues where possible.

Overall Concerns and Recommendations

You indicated that an over-arching concern of the organizations you represent is that the ARA project will not result in a prescription for increased safety. You also indicated that the ARA

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Project should be broadened to enable increased field observation and analysis of industry operations and management practices. We appreciate these comments, but want to be clear on how they fit within the guiding principles that have been established for the project.

The risk assessment is not an investigation or enforcement action. It is a technical engineering study of the risks associated with the current Alaska oil and gas infrastructure. The result of the risk assessment will be a risk profile of the existing infrastructure. The project team will consider operations and management practices as part of the risk assessment, but conducting extensive field inspections and review of regulatory oversight is not within the scope of the project.

The State will use the risk profile to make risk management decisions and develop actions that will lead to an acceptable level of risk for the oil and gas infrastructure. No specific risk management decisions have been made at this time and are not anticipated until the technical risk assessment is completed.

Your letter included comments and recommendations for three specific subject areas. These included:

- 1) Inadequate stakeholder outreach and communications;
- 2) Questions about the risk assessment process; and
- 3) The ARA process and issues raised by the Fairbanks public meeting discussion.

1) Inadequate Stakeholder Outreach and Communications

Our understanding from your comments is that the organizations you represent generally view the Stakeholder Consultation phase of the ARA Project as inadequate. The Stakeholder Consultation effort was conducted from August 2008 through early November 2008, and was designed to seek input from key Stakeholders as they relate to evaluation of the risks associated with the continued operation of the oil and gas infrastructure in Alaska. Multiple Stakeholder meetings were held to obtain input and Stakeholders were given several other avenues and options to provide feedback and communicate their concerns to the project team during this outreach effort.

The project team solicited stakeholder input on the risk assessment including the focus of the assessment, consequences of concern, suggested sources of information, and other specific priorities. Stakeholders from a wide variety of groups and regions were consulted during the process, including state agencies, federal agencies, local governments, industry, non-governmental organizations (NGOs), native organizations, and the public in general. Multiple key stakeholder and public stakeholder meetings were held in the five major oil and gas infrastructure regions, including: Fairbanks/Interior Region, Kenai/Cook Inlet Region, Anchorage/Statewide, Valdez/Prince William Sound/Copper River Basin Region, and the

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Barrow/North Slope Region. Meeting minutes from the public Regional Stakeholder Meetings are presently posted on the ARA Project website (<http://www.dec.state.ak.us/spar/ipp/ara/documents.htm>).

We have generally received positive feedback on the process from stakeholders. The results of the Stakeholder Consultation phase of the project are being documented in the forthcoming Interim Report. The report will be made available on the ARA Project web site when finalized and should provide additional information addressing your specific comments in this area.

Your comments in this section regarding the adequacy of the Stakeholder Outreach process also conclude with a recommendation to implement citizen's oversight organizations with adequate funding for the Trans-Alaska Pipeline (TAPS) pipeline corridor, for natural gas pipeline construction, and for North Slope oil fields. The simple answer is that implementation and funding of oversight organizations is not within the scope of the ARA Project.

2) Questions about the Risk Assessment Process

Your letter provided comments and questions in this section regarding the ARA Project, the Petroleum Systems Integrity Office (PSIO), and overall State of Alaska regulation and oversight of the oil and gas industry. The ARA project and PSIO are working together. However, the administration of PSIO and oversight of Alaska regulatory agencies are not within the scope of the ARA Project.

In response to your comments and questions on the ARA schedule and timing as it relates to Governor Palin's initiative, the project schedule is part of the ARA Project Management Plan. It can be found on the project website (<http://www.dec.state.ak.us/spar/ipp/ara/documents.htm>). The schedule was developed by the State Agency Oversight Team (SAOT) and refined by our contractor. The project is proceeding on the approved schedule.

In response to your comments regarding field inspection, the project team will consider operations and management practices as part of the risk assessment, but conducting field inspections and review of regulatory oversight is not within the scope or funding of the project. Some field inspection may be conducted to supplement data collection as needed. As you noted, implementation of the risk assessment will begin in 2009 following the development of the risk assessment methodology in Phase I of the project. This timing was designed to allow the appropriate level of development and review of the proposed risk assessment methodology.

In response to your comments on access to facilities and records, the general goal of the ARA Project is to work in a cooperative fashion with industry. Oil and gas industry owners and operators are key stakeholders in the project and their input is being solicited during development of the risk assessment methodology in Phase I, including a request to provide input on existing studies and best risk management practices. The State intends to continue to work

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cooperatively with the oil and gas industry to collect facility data and records. The project team is holding ongoing meetings with the oil and gas industry through the Alaska Oil and Gas Association (AOGA) to coordinate efforts and facilitate communication.

In response to your comments regarding “snapshot versus dynamic” implementation of the risk assessment, the ARA Project will provide a risk profile at a single point in time. We understand that changing conditions may contribute to risk, and the scope of the risk assessment includes taking into account foreseeable changes in operations, such as changes in throughput and heavy oil production. Market conditions and opinions on future industry budgeting are excluded from the scope of the project and will not be considered in the risk assessment.

In response to the comment regarding independent and objective government monitoring as part of the ARA Project, appropriate industry regulation, oversight, and risk management will be addressed by the State of Alaska following the completion of the risk assessment.

3) The ARA Process and Issues Raised at the Fairbanks Regional Stakeholders Meeting September 25, 2008

Your letter provided several comments and questions in this section regarding State of Alaska regulatory agency oversight and federal regulatory agency oversight, and the availability of additional information prior to the Fairbanks meeting. The various meeting materials provided prior to and at the Fairbanks meeting were focused on the specific stakeholder input required by the technical risk assessment project team. PSIO is currently conducting a regulatory gap analysis of oil and gas industry infrastructure. PSIO intends to take the results of both the regulatory gap analysis and the risk assessment into consideration in execution of the agency’s oversight role. Determining the focus and adequacy of Alaska regulatory agencies and regulatory framework is not within the scope of the ARA Project.

Your letter expressed concern that the project team will not include legal, permitted, and approved operations that may have an impact on the environment in the definition of unacceptable consequences. The ARA project assumes that the goal is for industry to operate as designed and permitted. This does not necessarily mean that all individuals agree with the approved designs or regulation of industry. The scope of the ARA Project does not include the adequacy of existing regulations, or consideration of risks from planned operations. The intent of the project is to assess the risk of unplanned events associated with current infrastructure, not to evaluate the risks presented by approved and permitted design.

Your letter provided concerns and questions regarding conflict of interest with the firm contracted to conduct the risk assessment. The State of Alaska selected Emerald Consulting Group, LLC (EMERALD) through a standard State of Alaska request for proposal (RFP) process. Contractors who provided proposals were specifically required to address any potential conflicts of interest with the State during the RFP process to ensure that their past experience

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with the Alaska Oil and Gas Industry does not represent a conflict of interest. EMERALD addressed conflict of interest through full disclosure in their proposal, and the Commissioner of the Department of Environmental Conservation has determined that no conflict of interest exists for the ARA Project. As noted in your letter, EMERALD is an independent subsidiary of Doyon, Limited. Work on the ARA project is limited to EMERALD and its approved subcontractors, and not any other Doyon, Limited companies.

Your letter asked why the Alaska Department of Fish and Game (ADF&G) is not currently identified as a member of the SAOT. The SAOT is the guidance committee for the project. The SAOT is composed of agencies that have an oversight role in the oil and gas industry. Staff from other agencies or departments have an advisory role when specific issues arise. They have been and will continue to be consulted when they have expertise useful to the project.

The section in your letter concludes with a series of questions, some of which were asked in various other forms in earlier sections of the letter and addressed. Specific responses to the questions are provided below for completeness.

Q: How will you get information in the field and from monitoring and inspection records if industry will not provide it?

A: The general goal of the ARA Project is to work in a cooperative fashion with industry. The State intends to work with the oil and gas industry to collect facility data and records in order to successfully implement the risk assessment. Industry representatives have indicated a willingness to support the project with technical information, and the project team is holding ongoing meetings with the oil and gas industry through AOGA to coordinate efforts and facilitate communication. In the event that requested information is not voluntarily provided, the team will explore other options. One option, thought not the most desirable, is to proceed with the implementation, substituting worst case assumptions for hard data. Field inspections may be conducted to supplement existing information if time and funding is available.

Q: How do you plan to survey all the oil industry workers in a way that allows their candid views to be made in a way that does not sacrifice their confidentiality and their jobs? How do you plan to survey former and existing oil field whistleblowers for their views?

A: A specific survey of all oil industry workers and whistleblowers was not part of the Stakeholder Consultation plan. Stakeholder Consultation was designed to seek input from key Stakeholders as well as the general public at large, including industry workers and other concerned parties like whistleblowers. Stakeholders were provided several avenues and options to provide confidential input and communicate with the project team. The project team is considering re-visiting this issue as the project moves into the data collection phase.

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Q: When will you consult formally with federally recognized tribes? When will you have public meetings in affected communities, including North Slope villages like Nuiqsit, and those along the TAPS pipeline corridor and impact areas in the event of failed pipelines? How will you assess agency management, field inspection, monitoring, compliance and assessment personnel and trends in staffing and personnel? Will you compare Alaska's program with those existing in other states?

A: The Stakeholder Consultation phase of the ARA Project included outreach to native organizations and communities along the oil and gas corridor. Some of the outreach was accomplished directly during meetings or through teleconferences. Please refer to the ARA Plan for the specific scope and approach for the Stakeholder Outreach process and the pending Interim Report regarding input from native organizations.

Q: How will you identify and evaluate which pipelines have/don't have leak detection systems (what kinds, how tested, how often tested, etc.), various types of pigging, etc? How many pipelines have been built in the past 10 years without active leak detection systems or the ability to put corrosion monitoring and cleaning pigs through them?

A: We do not currently have the information you are requesting. Technical data required for implementation of the risk assessment methodology will be determined by the technical project team following finalization of the risk assessment methodology. Obtaining the kind of technical information you reference in your questions will be part of the Phase 2 implementation activities.

Q: How many civil and criminal environmental and safety enforcement actions have been taken in the last 10 years? What is the rate of lack of compliance vs. fines imposed for these occurrences (i.e. how stiff is the compliance and enforcement arm of the state)? What changes would make this more effective?

A: The ARA project is focused on risks to safety, environment, and reliability. Determining compliance risk and adequacy of Alaska regulatory agencies and regulatory framework is not the goal of the ARA Project. Appropriate industry regulation, oversight, and risk management will be addressed by the State following the completion of the risk assessment.

Q: How will you address global warming factors into the inspection, monitoring and oversight programs?

A: Natural hazards will be evaluated as part of the ARA Project and climate change will be considered during the risk assessment as a natural hazard.

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I apologize for the delay in responding to your letter. You have raised some important and significant questions and it is important to have a thoughtful and consistent reply. Thank you for your interest in the project. I hope you will continue to be involved as the project moves forward.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ira Rosen". The signature is fluid and cursive, with a large initial "I" and a long horizontal stroke at the end.

Ira Rosen, PE
ARA Project Manager

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