

Alaska Department of Environmental Conservation's report on the Charter for Development of the Alaskan North Slope

DEC's status report on environmental commitments made by BP Exploration (Alaska) Inc., Phillips Petroleum Company, and the State of Alaska under the Charter signed December 2, 1999.



March 2001

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Highlights: The Charter requires BP and Phillips to

- ❑ *Invest \$700,000 per year for 10 years to research and develop better spill response preparedness and to finance state oversight of industry's corrosion monitoring program.*
- ❑ *Accelerate replacement of existing crude oil tankers with state-of-art double hulled tankers and to conduct annual management reviews of tanker operating practices.*
- ❑ *Accelerate cleanup for BP's and Phillips' North Slope contaminated sites and spend \$10 million to clean up abandoned contaminated sites for which there are no known responsible parties.*

I invite you to review the Department of Environmental Conservation's first report on the status of environmental commitments made in the "Charter for Development of the Alaskan North Slope," signed by BP and Phillips. The environmental pledges in the Charter represent groundbreaking commitments to protect Alaska's environment from any potential future adverse effects resulting from the merger of the major Alaska North Slope oil company operators and to remedy existing problems.

These pledges are unprecedented. This is the first time the resolution of antitrust concerns in a commercial merger of this scale has included environmental terms. The Charter's environmental commitments were intended to ensure that environmental performance remains a top priority in the post-merger Alaskan oil industry. These commitments include \$17 million towards both enhanced spill prevention requirements for future activities and significant work to correct problems left from times when the industry was not held to the high standards we expect today.

Monitoring compliance with these commitments is critical for two reasons. First, the commitments accomplish important tasks that are necessary to maintain the quality of Alaska's air, water, and land. Second, the timeliness and thoroughness of industry's follow-through on these pledges reflect whether the Alaska's North Slope oil industry's overall commitment to the highest environmental standards and practices is on track.

The following report highlights the current and scheduled progress of the Charter's environmental commitments. I am pleased with the progress to date on these commitments. The Department of Environmental Conservation will continue to guide and monitor the performance of these commitments until they are completed by Alaska's North Slope oil industry.

Michele Brown

Commissioner
Alaska Department of Environmental Conservation



DEC Commissioner Michele Brown and Governor Tony Knowles.

- Photo by the Governor's Office

What is the Charter?



Signing the Charter for Development of the Alaskan North Slope, were: BP Deputy Chief Executive Officer Rodney Chase; Governor Tony Knowles, and Phillips Chairman and CEO Jim Mulva.

- Photo by the Governor's Office

The State of Alaska, BP Exploration (Alaska) Inc., and ARCO Alaska Inc. agreed to the Charter for Development of the Alaskan North Slope on December 2, 1999. As set forth in the Charter agreement, BP and ARCO agreed to sell a pre-determined percentage of their Alaska interests to a third “qualified company” prior to their merger in order to prevent a monopoly and to ensure continued competition. Phillips Petroleum Company purchased the stock of ARCO Alaska, Inc. and, with BP, assumed responsibility for fulfilling the Charter obligations.

At the insistence of Governor Knowles, the Charter included significant environmental provisions to improve environmental safety, advance environmental protection through

improved technology, and remedy existing and emerging environmental challenges. The provisions and a summary of the status of these commitments follows.

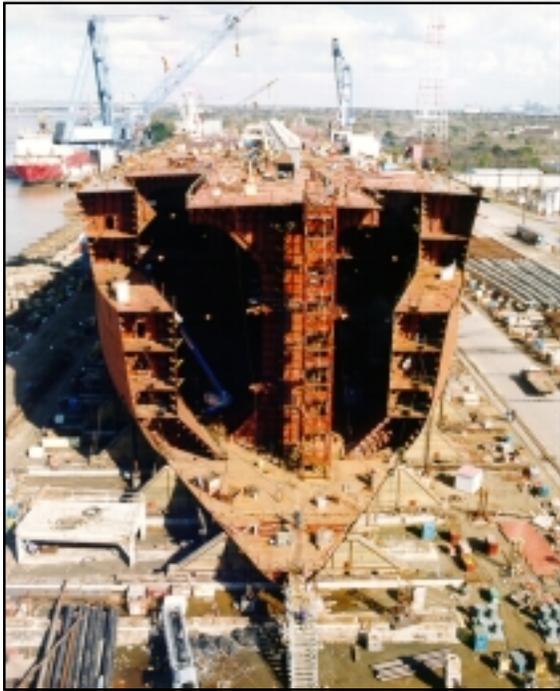
Improve North Slope Spill Response through Increased Research, Development, and Dedicated Resources

Commitment: Support and fund an independent professional North Slope oil spill response organization, such as Alaska Clean Seas, and encourage all North Slope producers to join and fund this organization. BP and Phillips must spend an average of \$200,000 per year for ten years on Arctic spill response research and development projects agreed to by DEC. This commitment is important to maintain the independence of the first line spill responder. The investment in research and development will keep Alaska in the forefront of Arctic spill response preparedness, creating a dividend of new and better technology and stable, high-paying technical jobs for Alaskans.

Status: Over \$200,000 was spent on research and development in 2000, including projects such as mechanical oil recovery in ice infested waters, viscous oil pumping, and oil detection in ice. A proposed 2001 research and development project work plan includes further work to refine mechanical recovery equipment design for broken ice conditions and the development and implementation of standardized management, training, and equipment software systems for spill response.

Accelerated Transition to Improved Tanker Safety

Commitment: Complete the purchase and delivery of three ARCO/Phillips “Millennium Class” tankers and replace other Trans-Alaska Pipeline System single hulled vessels to meet BP’s and Phillips’ combined Alaska North Slope fleet requirements.



The Polar Endeavour, the first Millennium Class double hulled tanker shown under construction in Louisiana. Scheduled for service in spring of 2001, the tanker will haul North Slope crude from Valdez to its markets. The entire fleet of BP and Polar, Phillips’ shipping company, will be double hulled by mid-2007.

- Photo by Polar Tankers, Inc.

This replacement is occurring on average one vessel per year ahead of Oil Pollution Act required dates, with the result that the entire fleet will be double hulled by 2007. All replacement vessels must have improvements equivalent to the “Millennium Class. BP and Phillips must also conduct vessel management and operating practices performance reviews at least once a year with DEC. The commitment to double hulled tankers and improved vessel management practices decreases the risk of an oil spill to Alaska’s pristine waters.

Status: Phillips will complete building and delivery of five “Millennium Class” tankers to replace the single hulled tankers now used in their Polar Tanker fleet. The first Phillips tanker will begin service in 2001 and the others will follow on an accelerated schedule. BP has placed orders for three “Alaska Class” double hull tankers to replace the single hull tankers in the fleet operated by the Alaska Tanker Company for BP. The first BP tanker is scheduled to begin service in late 2003, with the other two following in late 2004 and 2005. BP and Phillips have options to build additional double hulled tankers.

Both classes of vessels feature enhanced safety-related attributes, including double hulls, main power plant redundancy, twin propellers, twin rudders, twin independent sets of steering gear, improved navigation course tracking, collision alarm, engine room monitoring, cargo and ballast monitoring, and fire and safety system electronics. The conversion of the fleet, both owned and chartered, to double hulled vessels will be completed by mid-2007.

The Department of Environmental Conservation participated in BP’s

shipping company's ISM/ISO 9002 certification reviews this winter. This included assessment of its management and operation systems, including: tanker safety and operations, staff training and qualifications, vessel maintenance, and management procedures. Phillips has scheduled its first review for summer 2001. DEC also participated in a "Millennium Class" tanker training in November 2000.

Monitoring Corrosion and Aging Pipelines

Commitment: Develop a management program of corrosion monitoring and related practices to prevent leaks and structural failures in the North Slope pipelines operated by each company and to routinely review and report on that plan with DEC. To enable the state to oversee the corrosion management program, funding up to \$500,000 a year is available for the state to retain expertise. Ongoing consultation with DEC includes an average of two work sessions per year to review environmental control technologies and management practices. Corrosion and structural failure of aging pipelines can increase as the North Slope oil fields age. This commitment ensures state oversight of the companies' corrosion management program in order to reduce the chance of a major leak or pipeline failure due to corrosion.

Status: BP and Phillips have implemented an active corrosion control and management program, including monitoring, line maintenance, and inspection practices to assess and remedy potential or actual corrosion or other structural concerns related to these lines. Review sessions with DEC will be held twice annually to review and confirm compliance with the management program, with the first joint meeting scheduled for April 30, 2001, in Anchorage. DEC will contract for expertise to assist in the review of performance trends and corrosion program features and to provide an independent "second opinion" on the adequacy of the overall plan.

Cleanup of Abandoned Contaminated Sites and Empty Barrels

Commitment: Spend \$10,000,000 to assess and clean up, by 2007, fourteen North Slope abandoned sites suspected of hazardous substance contamination. BP and Phillips will also identify, collect, and dispose of abandoned empty barrels found on the North Slope. The people who caused the contamination, or left the barrels, are either unknown or are unable or unwilling to conduct any cleanup of the sites. Without the Charter commitment, the state would have had to clean up the sites using state funds on a less aggressive schedule, as funds were made available.



Echooka, North Slope – this site has over 100 drums spread around and in a lake. The drums appear to have been there for some time and are in a variety of conditions.

- Photo by DEC

Status: The abandoned sites have been characterized by the type of contamination, ranked by risk priority, and inspected. Initial site assessment, cleanup plans, and cost estimates are prepared. Contracts for field work are in place. Field cleanup work begins in field season 2001.

Field inspections in 2000 identified and inventoried several abandoned drum sites. BP and Phillips will remove and properly dispose of the barrels recovered. BP and Phillips will require, through express contract terms, that their seismic or exploration contractors identify any abandoned empty barrels they encounter and then BP or Phillips will collect and properly discard the barrels recovered.

Accelerated Cleanup of Existing BP and Phillips Contaminated Sites and Inactive Reserve Pits

Commitment: Fully assess and clean up approximately 41 contaminated North Slope sites for which BP and Phillips are responsible. The highest priority sites must be substantially completed by the end of 2005; the remaining sites, by 2007.

In addition, 87 inactive reserve pits must be closed by 2007. This commitment accelerates the rate of cleanup and sets a definite schedule for completion.



May Creek, North Slope, is an “orphan” site, a contaminated area for which the responsible entity is unknown. There are three large tanks which may contain fuel of some sort and quantity. There are also scattered drums that may be included in the cleanup of the area. This site is one of the higher priority sites slated for cleanup based on its possible threat to humans or the environment.

- Photo by DEC

Status: Closure plans have been submitted for 41 of the 87 reserve pits and cleanup is ahead of schedule. A total of 1.7 million cubic yards of drilling waste have been excavated and disposed of by deep underground injection. Remaining sites have been ranked by priority need for action. BP and Phillips are submitting work plans for high priority sites for DEC approval.



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