

Statement of the Honorable Bart Stupak
"2006 Prudhoe Bay Shutdown: Will Recent Regulatory Changes and BP Management Reforms Prevent Future Failures?"
Energy and Commerce Committee Subcommittee on Oversight & Investigations
May 16, 2007

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On March 2nd of 2006, BP discovered that oil was leaking from a major transmission pipeline responsible for connecting its west oil field with the Trans-Alaskan Pipeline (TAPS). Almost 201,000 gallons of crude spilled out of the pipeline and became the largest spill in Prudhoe Bay history. Prudhoe Bay oil field is the nation's largest and most strategic oil field producing 400,000 barrels a day. What started as a single oil spill ended in the shutdown of the entire Prudhoe Bay oil field. As a result, the nation faced a significant reduction (almost 8%) of its domestically-produced oil supply. This shutdown caused a severe spike in oil prices.

This Committee's investigation into the failures of BP's Alaska operations began shortly after the Department of Transportation (DOT) issued its March 15th, 2006 Corrective Action Order (CAO). The CAO mandated that BP smart pig a number of key pipelines, including the Western Operating Area and the Eastern Operating Area lines.

At last year's September 6th O&I Subcommittee hearing, a number of key questions were posed to BP about its Alaska pipeline maintenance & safety. Among the key questions raised at that hearing was; "What role did cost-cutting play in managing the field and did it have any affect on whether to smart-pig or maintenance pig the critical transit lines that ultimately led to the field's shut down?"

The Committee Members also posed a number of organizational and management questions on how BP's pipeline maintenance decisions were made. Members were assured by BP that cost cutting measures did not affect maintenance and a lack of maintenance did not cause the oil leak.

Today's hearing was originally intended to be an update as to what corrective actions BP, as well as state and federal agencies, had taken to improve the conditions at Prudhoe Bay. Unfortunately, as a result of recent documents produced to the Committee, we will also need to re-visit the issue of what caused the leaks. In the six months since our last hearing, a number of new developments have occurred, including a reorganization of BP's Alaska management structure (and personnel) as well as the engineering and rebuilding of key pipelines. Evidence shows that a severe cost cutting pressures existed between 1999 and 2005, which may explain why pipeline corrosion mitigation activities were never undertaken.

Several thousand documents recently provided by BP shed additional light on how the Prudhoe Bay oil field was managed. Some of these documents were actually available to BP officials before the September 6th hearing, yet BP failed to disclose this information. These documents show that cost cutting pressures on Prudhoe Bay operations were severe enough that some BP field managers were considering reducing or halting a range of actions related to preventing or reducing corrosion.

For example, some documents detail proposals to cut funding for corrosion inhibitor. These documents show that proposals were made between 1999 and 2004, and in such locations as the “produced water” lines which we understand are highly susceptible to corrosion. Documents also suggest that corrosion monitoring efforts such as smart pigging, coupon pulling, and digging up road crossings for visual inspections were reduced or put on hold because of budgetary pressures. This was occurring while BP received more than \$106 billion in profits. The documents further show that BP’s Corrosion, Inspection, and Chemicals (CIC) Group, was under extreme pressure to constantly find new ways to cut costs.

For instance, one email from October of 2001 said:

“As you may know we are under huge budget pressure for the last quarter of the year and therefore we have to take some rather disagreeable measures. Can you please implement the following changes/reviews:

- Shut down the PW [that is produced water lines] inhibition systems for the remainder of the year
- Discontinue the addition of corrosion inhibition for velocity control....

These need to happen as soon as possible.”

The author of this email refused to testify at our September 6th hearing and instead plead the 5th. While it is not known if the specific activities as referenced in this email occurred, other emails and documents show BP field managers were being asked to choose between saving money and critical maintenance. BP recently released to the Committee a major audit conducted by Booz-Allen-Hamilton which attempted to answer key questions on why last year’s shutdown occurred. This audit assessed both management and processes which led to the corrosion and failures of the Oil Transit Lines. The Booz-Allen-Hamilton report also found weaknesses in the way BP’s Alaska unit was structured. The Booz-Allen-Hamilton findings included the following:

There was no formal, holistic risk assessment process for pipeline integrity;

-- BP's corrosion management strategy was developed in the late 1990s, and had not been substantially reviewed or revised until recently, despite specific direction to do so in a 2004 internal audit;

-- BP's Alaska team often operated in vertical silos and there was little sharing of technical knowledge outside of Alaska or even across key business segments within Alaska;

-- BP's information technology infrastructure was fragmented and weak, making data analysis on key areas of the system difficult or impossible.

While some credit should go to Booz-Allen-Hamilton for identifying a number of weaknesses in BP's management of Prudhoe Bay operations, it also failed to answer "why" certain decisions were made, or more importantly, not made. It also failed to explain why some of the field's key operational assets -- such as the transit lines -- were allowed to corrode and were not smart pigged.

Two other reports about BP were also finalized since our last hearing. These include the "Report of the BP U.S. Refineries Independent Safety Review Panel" -- also known as the "Baker Panel Report" -- and the U.S. Chemical Safety and Hazard Investigation Board (CSB) report.

These reports focused on the 2005 Texas City refinery explosion (which resulted in 15 deaths, and 180 injuries) as well as the other four BP refineries in the United States. The findings of these two reports have relevance to BP Alaska operations and may also help explain what went wrong at Prudhoe Bay. We will hear today from the Chemical Safety Board that "there are striking similarities in the reported causes of the 2006 pipelines and the 2005 explosion at the BP Texas City refinery." In fact, as reported by the CSB "Most, if not all of the seven root causes that BP consultants identified for the Prudhoe Bay incidents, have strong echoes in Texas City." These include the "checkbox mentality" of cost cutting where budgets and funding were largely based on affordability as opposed to necessity, and "were not supported by an analytical process to prioritize risk."

It is the Committee's understanding that considerable design and construction work has already gone into rebuilding of the systems that failed at Prudhoe Bay. BP should be applauded for their reconstruction. Nevertheless, we will hear from Department of Transportation and the State of Alaska on how these efforts are progressing, whether it believes BP's physical problems have been solved, and how it will prevent future failures. Within the past month, for example, the State of Alaska created the "Petroleum Systems Integrity Office," which will attempt to serve as a bridge between the various state and federal agencies now responsible for regulating Prudhoe Bay operations. The Coordinator for that office will also testify today. We look forward to understanding how this new organization differs from what was used in the past and whether it will be more effective in regulating pipeline and oil production operations.

Roughly, six months ago, BP President Bob Malone made a commitment to this Committee that he would return to provide a progress report. I am pleased that he is before us, but I want to know about the Booz Allen report's findings; how senior management intends to restructure Prudhoe Bay operations so pipeline failures are not repeated; and how the contributing factors which led to the tragic Texas City explosion reflect on the failures at Prudhoe Bay.

Also, one of the primary findings in the CSB report was that "cost-cutting and budget pressures from BP group executive managers impaired process safety at Texas City." BP's Health, Safety and Environment Business Plan for 2005 warned that this refinery would "kill someone in the next 12-18 months" if changes were not made. Nonetheless, BP's Group Refining Management executives issued a 25% budget reduction "challenge."

An internal BP document found: "A culture that evolved over the years [at Texas City] seemed to ignore risk, tolerated non-compliance, and accepted incompetence." It found that the Group Vice President for Refining "was well aware of under-investment at" the Texas City refinery and "failed to draw the necessary inferences from warning signals" such as a 2002 report which found "[T]here was potential for a major site incident." Isn't under-investment essentially a polite way of saying we will cut costs without regard to the safety?

Similarly, documents made available to this Subcommittee suggest that BP field managers were under extreme pressure to cut costs in Alaska. E-mails and budget "challenges" paint an environment of extensive cost cutting to save money in the Prudhoe Bay operations.

While some may argue these activities did not relate to the shutdown or any given spill, my review of the mountain of circumstantial evidence can only lead me to the conclusion that severe pressure for cost cutting DID have an impact on maintenance of the pipelines. With such severe pressure to reduce costs, would a pipeline manager have been able to propose excavating the low points to examine for corrosion? Would a manager be allowed to smart pig or maintenance pig the oil transit lines? These corrosion maintenance activities are very expensive. In an atmosphere where managers were contemplating shutting down corrosion inhibitor to save money, I doubt the high costs associated with these proposals would have been tolerated.

This investigation has been difficult. Documents which should have been produced half a year ago, were not made available until a few weeks ago and more seem to roll in each day. The Committee's findings thus far paint a picture of how cost-cutting impacted the way the oil field was run. There are dozens of documents showing how employees - because of budget pressure from management - struggled to make the right call when it came to meeting the bottom line or to maintain pipeline integrity. Perhaps most cynically, budget pressure was being exerted during the 1999 - 2006 time period when BP earned more than \$106 billion in after-tax profits. As a result of BP's poor management of Prudhoe Bay, the public are the ones who ultimately are left footing the bill as the costs of supply interruptions are passed to them in the form of higher prices at the pump.

This practice of record high corporate profits coupled with continued cost cutting and neglect of infrastructure must end! The atmosphere of little accountability, minimal penalties, and no financial risk due to the fact that the oil companies merely heap their additional costs onto the backs of consumers at the pump, will not continue to be tolerated by this Congress or the American consumers.

This Committee will continue to investigate BP's management of this strategic oil field and as more documents become available, additional hearings may be warranted.