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## BP fined \$20 million for pipeline corrosion

### SPILLS ON SLOPE: Company had been on probation before the leaks.

By WESLEY LOY

[wloy@adn.com](mailto:wloy@adn.com)

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BP will plead guilty to a federal misdemeanor and pay \$20 million in criminal penalties for last year's Prudhoe Bay oil spills, which prosecutors said were the result of the company's knowing neglect of corroding pipelines.

Prosecutors said BP managers failed to heed "many red flags and warning signs" that key pipelines within the nation's largest oil field were going bad, with one of them leaking an estimated 201,000 gallons of oil onto the tundra and a frozen pond in March 2006, the largest oil spill ever on the North Slope.

Another leak the following August forced a temporary shutdown of half the field, driving up the price of oil on world markets and adding fuel to a federal criminal investigation that already was under way.

BP's pending plea in the Prudhoe case was among three major criminal and civil settlements the London-based company reached Thursday with federal authorities.

BP agreed to pay \$50 million and plead guilty to a felony for its 2005 Texas refinery explosion that killed 15 and injured more than 170 people, and it was penalized \$303 million in connection with price manipulation of the Lower 48 propane market. In addition, a federal grand jury in Chicago on Thursday indicted four former BP employees on charges of conspiring to manipulate and corner the propane market.

Federal and state authorities said Thursday that BP didn't spend the money necessary to maintain Prudhoe pipes. BP runs the field and shares costs with other owners Conoco Phillips, Exxon Mobil and Chevron.

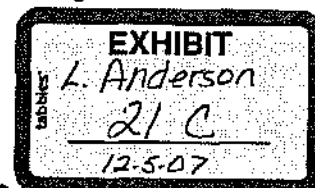
"As a result of BP's criminal negligence, corroded pipelines leaked crude oil into one of the nation's most fragile ecosystems," said Granta Nakayama, assistant administrator for enforcement with the U.S. Environmental Protection Agency, which helped investigate the case with the FBI and other agencies.

"Global companies like BP, with their experience, capabilities and financial resources, have no excuse for committing environmental crimes," he said.

"BP cut corners with disastrous consequences and is being held to account," said Ronald Tenpas, a ranking assistant U.S. attorney general.

#### STATE PROBE CONTINUES

In a statement, BP America president Bob Malone said the March spill "revealed a significant gap in our corrosion management program – a gap that existed because our approach to assessing and managing corrosion risk in these lines was not robust or systematic enough."



Anderson Exhibit # 21C

In the Alaska case, BP will pay a \$12 million federal criminal fine, \$4 million in criminal restitution to the state, and \$4 million for Arctic research. BP's local subsidiary, BP Exploration (Alaska) Inc., also will go on probation for three years, a 28-page plea agreement says.

BP Alaska will plead guilty in late November to one misdemeanor count of negligently discharging oil in violation of the federal Clean Water Act.

The charge pertains only to the March oil spill. BP was not charged with the second spill in August, which was much smaller, because the company "was prompt in detecting and containing this leak," the plea agreement says.

Nelson Cohen, U.S. attorney for Alaska, and state Attorney General Talis Colberg said BP's plea to the misdemeanor will wrap up the criminal aspect of the Prudhoe spills for both the federal and state governments.

However, they said authorities still can seek criminal prosecution of BP employees or contractors and can pursue civil penalties against BP Alaska.

Colberg acknowledged the state has a civil investigation ongoing, but he declined to provide details.

In the past, state officials including Colberg's predecessor, former Attorney General David Marquez, said that the state might seek what could be a multimillion-dollar civil fine against BP, and that the state also would review whether it lost money due to interrupted production of millions of barrels of oil during the partial Prudhoe shutdown.

#### **BP'S CRIMINAL RECORD**

The guilty plea will mark the second time in eight years that BP Alaska will have been convicted of a federal environmental crime in Alaska.

In 1999, the company pleaded guilty to one felony count in connection with the illegal dumping of nearly 1,000 gallons of hazardous waste by one of its drilling contractors in BP's Endicott oil field. BP paid \$15.5 million in penalties and was placed on probation for five years.

Because that probation period had ended, BP was not in violation as a result of last year's pipeline leaks, Cohen said.

The pipe that leaked the 201,000 gallons had been neglected since 1998, prosecutors said.

That was the last time BP ran a cleaning or testing device called a pig through the steel pipe, which is part of a key network of Prudhoe trunk lines that funnel oil into the 800-mile trans-Alaska pipeline.

After the March 2006 spill, a grand jury began investigating. Prosecutors said BP cooperated by supplying millions of documents, explaining technical details, and sawing out a section of the leaky pipeline for examination as evidence.

Investigators found a 6-inch layer of hardened sediment caked to the bottom of the pipe section.

Cohen said the sludge helped breed acidic bacteria and corrosion that ultimately ate an almond-sized hole through the line, allowing a slow leak that released 201,000 gallons before a BP worker who was driving nearby smelled oil that had oozed beneath snow blanketing the tundra.

#### **SAVING MONEY**

BP executives and spokesmen have said they were surprised that corrosion developed in the large trunk lines, which unlike many other pipes don't carry much water mixed with the oil.

But BP knew that sediment was collecting in the pipes, that the changing nature of the oil and its slow flow could encourage corrosion, and that leak-detection technology wouldn't work well unless the pipelines were periodically cleaned.

Saving money was a factor, prosecutors said.

"BP didn't spend money that it should have spent," Cohen said.

He said the \$20 million in penalties likely is the largest dollar punishment ever for an environmental misdemeanor in Alaska.

BP said Thursday work is under way to replace 16 miles of corroded Prudhoe pipelines and the roughly \$250 million job will be done next year.

The company said it "promptly and thoroughly cleaned up" the spills and "no lasting harm to the surrounding environment is expected."

The larger spill covered 2 acres and it could take up to a decade for the tundra vegetation to return to normal, state environmental officials said Thursday.

Other changes have occurred at BP Alaska since last year's corrosion crisis. The company now has a new president and a new Prudhoe Bay field manager, and it has beefed up its anticorrosion unit.

Federal pipeline regulators also have intensified scrutiny of the pipelines that leaked.

#### **Among other details to emerge Thursday:**

- The plea agreement forbids BP from deducting the \$20 million in penalties from its state or federal taxes.
- BP can shorten its three-year probation to one year if it promptly replaces bad pipes and meets other conditions.

Find Wesley Loy online at [adn.com/contact/wloy](http://adn.com/contact/wloy) or call 257-4590. Daily News reporter Erika Bolstad contributed to this story.

#### **MORE**

**AT A GLANCE:** See the terms of BP's penalties in Alaska and the Lower 48.

**JUNEAU:** Will the BP fine prompt legislators to tighten deductions on state oil taxes?

BP agreement

#### **IN ALASKA**

The U.S. Justice Department's criminal investigation focused on Prudhoe Bay oil spills last year, particularly 201,000 gallons spilled from a pipeline, the largest North Slope oil spill ever. BP Exploration (Alaska) Inc. will:

Plead guilty to a misdemeanor violation of the Clean Water Act.

Serve three years of probation.

Pay a \$12 million criminal fine.

Pay \$4 million criminal restitution to the state.

Pay \$4 million for research on Alaska's Arctic.

### **IN TEXAS**

The criminal investigation concerned a 2005 explosion at a BP refinery that killed 15 workers and injured more than 170 others. BP Products North America Inc. will:

Plead guilty to violating the Clean Water Act, a felony.

Serve three years of probation.

Pay a \$50 million criminal fine.

### **PROPANE MARKET**

The criminal investigation centered on a conspiracy to manipulate the Lower 48 propane market:

BP America Inc. is charged with violating the Commodity Exchange Act, mail fraud and wire fraud. But federal prosecutors will not prosecute the case for three years if BP cooperates with an ongoing investigation and with an independent monitor.

Four ex-employees were indicted Thursday by a federal grand jury in Chicago on charges of conspiring to manipulate and corner the propane market.

BP will pay \$303 million in criminal and civil fines and restitution.