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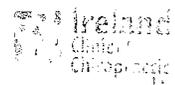
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BP fined \$20 million for pipeline corrosion

By WESLEY LOY
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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.

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A A A

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



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Plea and trial timing might benefit state
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PDF: BP plea agreement
Oil spill reported at Prudhoe Bay (03/02/2006)
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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."

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.

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| DOW | NSDQ | NYSE | S&P 500 |
| Dow Jones Industrial Avg. | | | |
| 13864.17 | | | |

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|-----------|----------|--|
| DOW | 13864.17 | |
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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 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.

WEB Exhibit # 8.c

THE INDIANAPOLIS STAR
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BP refinery safety violations revealed

Associated Press

WHITING, Ind. -- A 5-month investigation of BP's Whiting refinery following a deadly explosion at a Texas refinery owned by BP found untested fire hoses, broken equipment and outdated safety procedures, The Times of Munster reported.

While significant, state officials say the violations at the Whiting refinery largely pale in comparison to the problems uncovered at BP's Texas City refinery, where a March 2005 explosion killed 15 people and injured more than 170 others.

The Indiana Occupational Safety and Health Administration, or IOSHA, finished its lengthy review of the Whiting refinery -- the nation's fourth largest -- last year, finding more than a dozen serious safety hazards and leveling \$384,250 in fines.

The Times, which first reported the fines last month, recently obtained state inspection records detailing the hazards cited at the refinery.

Those records show that the refinery's most critical violations centered on problems with pressure gauges and rupture disks -- a type of relief valve that constricts pipeline flow to prevent surges that can cause a fire or explosion.

In one area, a unit in which gasoline octane is boosted, inspectors found two malfunctioning gauges and a blown rupture disk that had not been replaced.

State inspectors also cited the Whiting refinery for failing to update written maintenance and safety procedures. In several cases, the refinery was more than a year behind on self-inspection deadlines for various types of equipment.

In one case, a structural integrity test that was supposed to have been performed seven years earlier remained unfulfilled when the state's review began in May 2006.

The violations yielded 13 fines ranging from \$2,125 to \$70,000 that totaled \$384,250.

"We've levied bigger, but not very often," said Jeff Carter, a deputy commissioner for the Indiana Department of Labor.

BP spokesman Tom Keilman said the Whiting refinery has corrected all of the safety hazards cited by IOSHA and is working with the state agency to resolve the fines. If the two sides do not reach an agreement by February, the case will go before an administrative hearing panel.

"The Whiting refinery has had a solid record on safety performance, showing continuous safety improvement over the past several years," he said.

Although the violations at the Whiting refinery are significant, state officials say the problems uncovered at BP's Texas City refinery are largely much more significant.

State inspectors classified five of the Whiting violations as knowing, or willful, the most severe category of workplace hazard under federal safety guidelines.

At BP's Texas City refinery, however, investigators found 301 willful violations in the wake of the March 2005 blast that killed 15 people and injured more than 170 others.

WEB Exhibit # 8-21

"I think it's fair to say that the (Whiting) refinery doesn't have the breadth of problems that Texas City had," said Carter, the deputy Indiana labor commissioner.

After the Texas City explosion, BP paid a \$21 million fine, the largest in the 35-year history of the federal Occupational Safety and Health Administration.

Last week, the company agreed to plead guilty to a felony and pay an additional \$50 million criminal fine stemming from federal Clean Air Act violations tied to the explosion.

WEB Exhibit # 8-e

BP Pleads Guilty To Clean Water Act Violations in Alaska

October 31, 2007
Wednesday AM

(SitNews) - British Petroleum Exploration (Alaska), Inc., (BPXA) agreed on October 25th to plead guilty to a violation of the Clean Water Act to resolve its criminal liability relating to pipeline leaks of crude oil onto the tundra as well as a frozen lake in Alaska.

As part of the guilty plea BPXA has agreed to pay a \$12 million criminal fine, \$4 million in community service payments to the National Fish and Wildlife Foundation (NFWF) for the purpose of conducting research and activities in support of the arctic environment in the state of Alaska on the North Slope, and \$4 million in criminal restitution to the state of Alaska, and serve three years of probation.

The Justice Department and State of Alaska have agreed not to bring further criminal charges against BPXA in connection with the March and August 2006 spills.

This investigation involved two different leaks from oil transit lines (OTLs) operated by BPXA. The leaks occurred in March and August of 2006, and were the result of BPXA's failure to heed many red flags and warning signs of imminent internal corrosion that a reasonable operator should have recognized. The first pipeline leak, discovered by a worker on March 2, 2006, resulted in more than 200,000 gallons of crude oil spreading over the tundra and reaching a nearby frozen lake, where oil spread out onto the ice along one shore. This spill was the largest spill to ever occur on the North Slope.

The second leak occurred in August of 2006, but was quickly discovered and contained after leaking approximately 1,000 gallons of oil. Nevertheless, the second leak led to the shut down of Prudhoe Bay oil production on the eastern side of the field. BPXA shut down production because it could not guarantee the condition of the line and whether it was fit for service.

The leak and the resulting 4,800 barrel spill impacted 1.9 acres and is the largest oil spill to ever occur at Prudhoe Bay. The plea agreement acknowledges that BPXA promptly and thoroughly cleaned up the discharged oil. No lasting harm to the surrounding environment is expected.

"This leak, and the spill that resulted from it, 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," said BP America Chairman and President Bob Malone.

"We regret that our monitoring of these lines did not meet the expectations of the State of Alaska and the U.S. government," Malone said. "Since this incident we have worked with state and federal regulators to ensure the safe, reliable operation of critical Prudhoe Bay pipelines which deliver processed oil to the Trans Alaska Pipeline."

Following the March spill, BPXA said they worked with the U.S. Department of Transportation to make periodic maintenance and smart pigging part of BPXA's oil transit line corrosion inspection, monitoring and inhibition program.

BPXA said replacement of the 16-mile Prudhoe Bay oil transit line system will be completed in 2008. BPXA began construction of the \$250 million project in early 2007.

During the investigation the United States obtained a section of pipe where the March 2006 leak occurred. Approximately six inches of sediment were found on the bottom of the thirty-four-inch-diameter pipe. When sediment builds up in a pipeline it forms an environment in which acid-producing bacteria can thrive undisturbed by the flow of oil and chemicals intended to protect the pipe from corrosion. The acid produced by these bacteria can cause corrosion, which causes pits or, if unchecked, holes in the wall of the pipe.

Knowing this the Justice Department said, BPXA should have cleaned the OTLs with a piece of equipment called a maintenance (or cleaning) pig and inspected the pipes for corrosion with a smart pig-- an inspection tool able to make a complete evaluation of a pipeline's integrity. A maintenance pig would have disturbed the bacteria and cleared out the stagnant water and sediment that harbor the acid-producing bacteria. A smart pig would have provided a clear picture of the corrosion activity that was occurring in both areas where leaks eventually occurred.

The case was prosecuted by Trial Attorneys J. Ronald Sutcliffe and Christopher J. Costantini of the Environmental Crimes Section of the

Department of Justice and Assistant U.S. Attorney Andrea T. Steward and Special Assistant U.S. Attorney Daniel Cheyette of the U.S. Attorney's Office for the District of Alaska.

The case was investigated by the EPA's Criminal Investigation Division and the FBI with assistance from and the Department of Transportation's Office of Inspector General. Technical assistance was provided by the Pipeline and Hazardous Materials Safety Administration and the Alaska Department of Environmental Conservation.

Sources of News:

U.S. Department of Justice
<http://www.usdoj.gov>

British Petroleum
<http://www.bp.com/>

WEB Exhibit # 8-9