

**Petroleum Systems Integrity Office Contracts**

**FY2008 Request: \$500,000**  
**Reference No: AMD42881**

**AP/AL:** Appropriation  
**Category:** Natural Resources  
**Location:** Statewide  
**House District:** Statewide  
**Estimated Project Dates:** 07/01/2007 - 06/30/2008

**Project Type:** Health and Safety  
**Contact:** Nico Bus  
**Contact Phone:** (907)465-2406

**Brief Summary and Statement of Need:**

This project is a direct response to the Prudhoe Bay Unit pipeline corrosion and production shutdown incidents and is integral to the state's overall commitment to the State of Alaska's oil and gas leases infrastructure oversight. Division staff with assistance from private sector experts in system integrity, quality control and quality assurance and risk analysis will conduct ongoing reviews and appraisal of oil and gas lessees operations and facilities. It allows for contracted analysis and assessment of oil and gas system segments on an "on-demand as-needed" basis, where a critical system assessment needs to be performed, or where the risk of a system failure has far-reaching consequences.

<b>Funding:</b>	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	Total
Gen Fund	\$500,000		\$500,000		\$500,000		\$1,500,000
<b>Total:</b>	\$500,000	\$0	\$500,000	\$0	\$500,000	\$0	\$1,500,000

<input type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input checked="" type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input checked="" type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

**Operating & Maintenance Costs:**

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
<u>One-Time Startup:</u>	0	
<b>Totals:</b>	0	0

**Additional Information / Prior Funding History:**

This is a new project request.

**Project Description/Justification:**

This project supports the newly established Petroleum Systems Integrity Office. The project is integral to the state's overall commitment to ensure the system integrity of oil and gas infrastructure. It will facilitate safe, reliable and more continuous oil and gas production and thereby help to maximize and stabilize revenues to the state.

The previous Permitting & Compliance function focused on approvals of Plans of Operation, submitted for all construction and modifications to oil and gas facilities, from a land use perspective only. Plans of Operation include diagrams and narrative descriptions of planned facilities and activities, including locations, sequence, and compliance with mitigation measures established in the areawide lease sale Best Interest Finding or as a result of the approval process. Design information for pipelines, facilities and support infrastructure was not required or adjudicated as part of the previous approval process. Likewise, operational and maintenance programs for pipelines, facilities and support infrastructure and practices were also not reviewed or assessed.

Integration of the System Integrity Initiative with existing permitting and compliance expanded procedures to address engineering design, operational procedures, maintenance and corrosion prevention programs, and quality control/quality assurance programs. An assessment of these programs, as compared with technical, industry and performance standards, will lead to a prioritized risk assessment of the various facilities, systems, operational and maintenance practices in each oil and gas Unit. Corrective actions will be required to address program gaps and weaknesses, both on paper and in the field. Proper installation, operation and maintenance of oil and gas facilities, as well as remedial actions, will be identified.

Documented inspections will be performed with the addition of inspectors to the Compliance function, the use of outside contract expertise, and expansion of the division's field presence.

To enable prompt focus on system elements or maintenance practices that have been unexamined or which exceed an acceptable level of risk, the division proposes to keep on contract for use on demand, technical contractor expertise to investigate, review and determine appropriate remedial action to ensure infrastructure integrity. This contract support will supplement the ongoing technical review, risk assessment and field compliance efforts addressing infrastructure statewide.

A similar function is currently performed by the State Pipeline Coordinator's Office (SPCO) of the Joint Pipeline Office, but is limited specifically to those pipelines located within state rights-of-way and therefore authorized under AS 38.35, which currently consists of portions of 16 pipelines. The System Integrity Initiative is implemented within the Division of Oil and Gas to address a far broader scope, addressing all oil and gas facilities and related operation and maintenance practices and procedures on all state oil and gas leases. The division will conduct a "regulatory gap" analysis to assure that there is no overlap or duplication of efforts between the division's program and the SPCO or Department of Environmental Conservation programs.

**Results:**

Risk assessments will be performed on an ongoing basis on all oil and gas systems and infrastructure, statewide as physical conditions and operating practices change in the fields. Proposed facility designs, operations and maintenance practices and programs will be reviewed for technical competence and consistency with established government and industry standards. Inspections will be performed on an ongoing basis, documenting compliance with approved procedures and plans. Corrective actions will be ordered where required.

**Why is this Project Needed Now:** This project is needed now to allow flexibility in addressing specific system components, operators or maintenance procedures which come to our attention as the possible source of a risk to oil and gas system integrity. While program development, staffing and initial technical assessments are underway, elements of the state's oil and gas infrastructure, operations and maintenance procedures considered to have a high risk of failure must be addressed promptly and at times using using outside contract expertise.

Not approving this project will negatively impact the state's ability to quickly assess potential points of failure within oil and gas systems, with potential impacts to oil and gas production and stable revenue income.

**Specific Spending Detail:** The funding is to be used to hire professional services, through an "on demand, as-needed" contract, consisting of quality assurance, mechanical, pipeline and other engineering disciplines. These technical experts will investigate and perform risk assessments on particular system elements, practices and procedures to determine the level of risk of failure to oil and gas operations.

Line Item Expenditures:

Personal Services:	\$20,000.00
Travel:	\$20,000.00
Services:	\$460,000.00

**Project Support:** Department of Law, Department of Revenue, State Pipeline Coordinator's Office, AOGCC, Department of Natural Resources, Department of Environmental Conservation, Governor's Office.