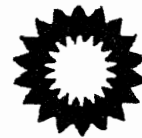


bp

Albert N. Bolea
PresidentBP Pipelines (Alaska) Inc.
P. O. Box 190848
Anchorage, Alaska 99519
(907) 584-5757

May 6, 2002

David Wight, President
Alyeska Pipeline Service Co.
1835 South Bragaw Street, MS-528
Anchorage, Alaska 99512-0099Re: Revised Program Scope 2002

Dear David:

Thank you for the re-submission of the 2002 Program letter to the Owners. This response has been coordinated with Exxon, Phillips, BPPA and Williams. We are pleased with the improvements Alyeska has made in the descriptions of the programs and the levels of detail behind each large category of spend. The letter has helped us solidify our views as Owners on which of the proposed projects fit the definition of programs and which do not qualify on the basis of cost transparency, predictability, or project life span. We recommend working with Alyeska to clarify the intent and definition of the programs AFE's and update the A&E manual as necessary.

The visibility of past years' spend in the program descriptions is also very helpful for the budget control process. One gap we see is that none of the programs state as one of their goals an increased efficiency of spending as part of the learning process on a repetitive activity. We believe Alyeska should take more action in structuring contracts and leveraging learnings to reach greater efficiency in the future for the same scope of work. In the past few years, most programs have spent exactly what they were budgeted unless the scope was changed (such as in the ROW maintenance program), and the overall level of spending has gone up and is forecasted to stay up in the future. We feel it is necessary to bring a drive for continuous improvement into the program budget, and therefore we encourage Alyeska to set a stretch objective of completing the proposed programs at 90% of funding. We would like to emphasize that we are looking for the efficiency of overall spend, rather than changes in the scope of work.

Below is a summary of the programs we are approving as proposed or with the modifications listed. Some of the proposed programs have not been approved for the reasons listed below. In such cases, we would like to use the regular AFE process to better manage the budget and understand this work more fully.

Approved 2002 Programs

ROW Civil Maintenance Program	<u>\$6.5 million approved</u>
-------------------------------	-------------------------------

The six categories identified for the 2002 program account for approximately \$6.5 million of the \$9.0 million total. We would like to understand the justification for the additional \$2.5 million in proposed spending prior to approval.

TAPS Pipeline Tank Inspection Program	<u>\$3.5 million approved</u>
---------------------------------------	-------------------------------

Boles
May 8, 2002

River Training Structures

Not Approved

We do not support categorizing this activity as a program in 2002. This proposed program has previously been approved as a separate project, which included capital and expense dollars and the proposed spending level has increased significantly. Further explanation on work scope and evaluation of alternatives are required.

Mainline Corrosion Investigation

\$8.0 million approved

Alaska should review the 2002 program upon completing investigation of the 12 priority sites to gauge the accuracy of the smart pig data with field findings. The remaining 2002 investigation program should be adjusted accordingly. Spending above the approved \$8 million level requires additional Owner approval.

Fuel Gas Line System Maintenance

Not Approved

We do not support categorizing this activity as a program in 2002. This proposed program has previously been approved as a separate project, and the 2002 work scope for this project has not yet been finalized.

Above Ground Mainline Pipe Maintenance and Repair

Not Approved

We do not support categorizing this activity as a program in 2002 as written. We would like to see additional information on the proposed spending for the ten (10) component categories. Some of the components, such as the VSM Replacement and Structural Remediation and Mainline Pipe Insulation repair, require additional discussion and justification, as it is not clear what is included in their work scope.

VMT Tanks Inspection and Cathodic Protection

**\$16.8M Previously-Approved
(removed from this request)**

Summary

Total Alaska Program budget revised request \$34.5 million

**Approved Program budget
For scope as stated**

\$18.0 million

Regards,



Al Boles

Chair, TAPS Owners Committee
On behalf of those Owners voting in the affirmative

2002 Revised Program Approval Request
April 12, 2002
Page 2

Alyaska Pipeline Service Company

By: *D.G. Wight* *4/15/02*
D.G. Wight Date

Approved by Owners:

Amcrada Hess Pipeline Corporation

By: _____
D.C. Lutken, Jr. Date

Phillips Transportation Alaska, Inc.

By: _____
M.A. Yacge Date

BP Pipelines (Alaska) Inc.

By: *A.N. Bolca* *5/6/02*
A.N. Bolca Date

ExxonMobil Pipeline Company

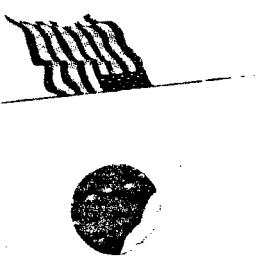
By: _____
M.P. Tudor Date

Unocal Pipeline Company

By: _____
J.M. Monroe Date

Williams Alaska Pipeline Company, L.L.C.

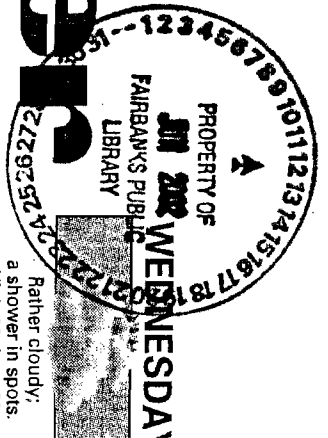
By: _____
M.N. Mears Date



FAIRBANKS

DAILY NEWS-MINER

The voice of Interior Alaska since 1903



Rather cloudy; a shower in spots. High 66, Low 50. Page A2

Fairbanks, Alaska

WEDNESDAY, JUNE 12, 2002

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Vol. XCIX, No. 182

www.newsminer.com

Alyeska urged to trim costs

Pipeline owners call for more 'efficiency' on maintenance

By SAM BISHOP
News-Miner Washington Bureau

WASHINGTON—Owners of the trans-Alaska oil pipeline last month asked their operating company to try to complete maintenance work this year while spending only 90 percent of the money budgeted, according to an internal letter obtained by the News-Miner.

The letter illustrates the major oil companies' interest in keeping pipeline costs down, a goal that benefits not only the owners but also the state of Alaska, according to a spokesman for Alyeska Pipeline Service Co. Alyeska operates the line for the oil companies.

A long-time pipeline critic, though, said the request shows that the oil companies, rather than accepting the need to spend more money on the aging line, are pushing too hard in the other direction.

The letter was faxed to the News-Miner Washington bureau Monday evening. It arrived as both environmental groups and Alyeska are meeting with policy-makers in the capital to discuss renewal of the right-of-way permit for the pipeline. An environmental impact statement on the renewal, which may outline changes that government agencies think ought to be made in the pipeline's operation, is due out in November.

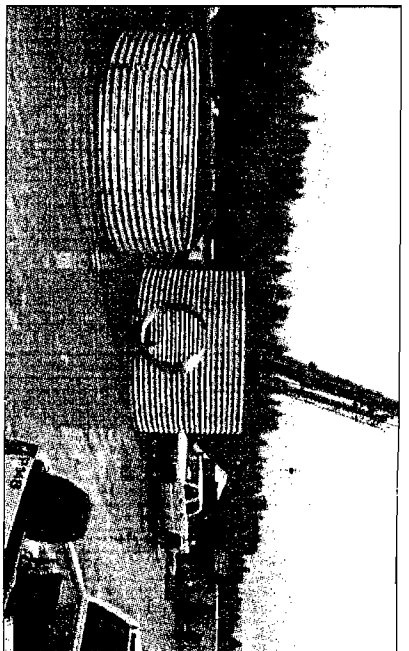
The May 6, 2002, letter was written by Al Bolea, chairman of the TAPS Owners Com-

mittee, to David Wight, president of Alyeska. The owners group includes BP Alaska (Exploration) Inc., where Bolea works as president of the pipeline division, as well as Exxon Mobil, Phillips Alaska Petroleum Co. and Williams, the operator of the North Pole refinery.

Bolea said Alyeska needs to become more efficient.

"We encourage Alyeska to set a stretch objective of completing the proposed programs at 90 percent of funding," Bolea wrote. "We would like to emphasize that we are looking for the efficiency of overall spend, rather

See ALYESKA, Page A12



Eric Engman/News-

PIPELINE MAINTENANCE—A vault is ready to be installed around an underground valve along the trans-Alaska oil pipeline near a visitor center on the Steese Highway Tuesday afternoon. The vault will enable workers to access the valve for maintenance repairs without having to dig it out every time. The work is being done by Ahtra Construction, which is also installing vaults at other underground valve locations.

Green acres



Air carriers threaten suit over fuel tax

ALYESKA: Critics say maintenance cuts lead to safety problems

Continued from Page A1

than changes in the scope of work."

Mike Heatwole, spokesman for Alyeska in Anchorage, said the letter reflects nothing more than the desire of the owners, like the owners of any company, to keep costs down. That effort, though, benefits not just the companies but also Alaska state government's treasury, he noted. The cost of transporting oil to market via the pipeline and tankers is deducted from the value of the oil before state taxes and royalties are figured on it.

"Every dollar that we can save as an operation is worth 25 cents to the state of Alaska," Heatwole said. "The pipeline is one aspect of Alaska's energy delivery system and anything we can do to be cost-conscious and get efficiency is beneficial to us, to the state and to the owner companies."

The request from the owner companies to keep costs to 90 percent of what has been budgeted is a general goal, not a hard order, which is why it was called a "stretch objective," Heatwole said.

Long-time Alyeska critic Richard Fineberg of Ester said the letter's contents appear to confirm what some environmental organizations have alleged—that owner pressures are pushing Alyeska to cut too many corners on pipeline maintenance.

Fineberg will be in Washington, D.C., this morning to present a report on that topic. He wrote the report for the Alaska Forum for Environmental Responsibility. Walt Parker, a forum board member, will join him at a news conference in a Senate office building.

The letter, Fineberg said, "is completely consistent with what we were frequently told during the research for the report." "I have several examples in the report of incidents that at least some observers believe were the result of the cost-cutting pressures, incidents that threatened safe operations," he said.

Heatwole, though, said that Alyeska will spend roughly \$200 million on maintenance this year, one of the highest yearly totals since the pipeline was finished in 1977.

"Both our managers and our owners are very aligned in a solid commitment to maintenance," Heatwole said.

The letter from Bolea to Wight discusses several projects that represent about \$35 million of the \$200 million total.

The letter declares more than half of Alyeska's requests involving the \$35 million to be "not approved." The rejected requests involved clearing and dirt work on the right of way, work on river-

crossing training structures, maintenance of a natural gas line from Prudhoe Bay to Pump Station No. 4, replacement of some vertical supports that hold the pipeline off the ground, and repair of mainline pipe insulation.

Alyeska will still spend money in those areas, though, Heatwole said.

"It's primarily a classification issue rather than anything else," he said of the owners' response. "This isn't a flat-out rejection."

The owners gave Alyeska's requests a "not approved" stamp because they didn't think the work deserved to be upgraded to the "program" level, Heatwole said. In Alyeska jargon, a "program" refers to a multi-year initiative, he said.

For some work, such as that on the vertical supports, insulation and the right-of-way maintenance, the owners wanted more

information before upgrading to the program level, he said.

Other requests were rejected because the work was already being done at a project level and owners didn't think it warranted an upgrade to the "program" level, Heatwole said. For example, on both the natural gas line and the river training structures, the owners had this to say: "We do not support categorizing this activity as a program in 2002. This proposed program has previously been approved as a separate project."

The owners did approve \$18 million worth of maintenance work with the letter. That includes \$8 million for corrosion detection on the main pipeline, \$3.5 million for tank inspections and \$6.5 million for right-of-way maintenance.

Washington, D.C., reporter Sam Bishop can be reached at sbishop@newsminer.com.

VACCINES: Parents of sick children say study breaks no new ground

Continued from Page A1

support group for parents who believe their children have been damaged by the MMR vaccine, and she believes the issue has not been settled.

"It's not new evidence. It's only old evidence rehashed," she said. "That's what's annoying parents—if we've got all this money to throw away on keeping on reviewing things, haven't we

got the money to start new research and look into it once and for all?"

Fears over the MMR vaccine intensified in 1998 after a British study raised the possibility of a connection between the vaccine and developmental problems in 12 children with bowel ailments. The study was conducted about eight years after the children had been vaccinated.

By February of this year, MMR

immunization in British 2-year-olds had dropped to 84 percent, well below the 95 percent specialists say is needed to prevent measles from returning. The decline prompted the British health authorities to launch a campaign to persuade parents the vaccine is safe.

Donald said there is no doubt more research on autism is needed, but she would not endorse any more research into the link between autism and MMR.

"This is a terrible distraction from limited funds that need to be looking at autism itself and not at something that has been answered more convincingly than most things we have ever tried to look at," she said.

Dr. John Clemens, a medical officer in the immunization program at the World Health Organization, said WHO will continue to monitor future vaccine safety

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studies but the U.N. health agency sees no need to spend more money to further investigate a link to autism.

Dr. Neal Halsey, director of the Institute for Vaccine Safety at Johns Hopkins University, said scientists should try to determine whether measles viruses linger in the intestines or other tissues, but the outcome of such studies would not alter his opinion that MMR is safe and effective.