PRESS RELEASE

FOR IMMEDIATE RELEASE:
September 5, 2013

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Report: Aging Oil & Gas Platforms & Pipelines Pose Clean-Up Risks to Public

Anchorage, Alaska – The public interest group Cook Inletkeeper, in conjunction with economists at the Center for Sustainable Economy, today released a report highlighting the public financial risks posed by aging oil and gas infrastructure in Cook Inlet. The report comes as the State of Alaska starts to consider new rules to address the concerns raised by the dismantling, removal and restoration (DR&R) of old platforms, pipelines and facilities in Cook Inlet.

“We applaud DNR for taking the first steps needed to address the significant concerns surrounding DR&R for Cook Inlet oil and gas infrastructure,” said Bob Shavelson, Executive Director of Cook Inletkeeper. “This preliminary report helps frame the issues to ensure any new DR&R rules protect the public interest while providing industry with the predictability it needs to operate.”

Among the report’s key findings and recommendations:

• The vast majority of oil wells, platforms, pipelines, and onshore processing facilities in Cook Inlet are well beyond their design life, with many nearly 50 years old.
• Records provided by Alaska Department of Natural Resources (ADNR) staff and other public records cited by the General Accounting Office indicate that the value of DR&R funding committed through State bonding and included in ADNR databases to be roughly $46 million. Additional bonding documented by Division of Oil and Gas staff but not included in ADNR databases indicates an additional $140 million in performance bonds and guarantees.
• In contrast, the total costs of DR&R for 16 offshore platforms and 160 miles of oil pipelines in Cook Inlet will likely range between $402 million and $1.11 billion. Adding gas pipelines and other infrastructure with more ambiguous DR&R requirements would greatly increase this cost estimate and the associated funding gap. Thus, DR&R funding
available to the State through bonds probably represents no more than four to eleven percent of total anticipated costs.

- DR&R rules are often unclear and uncertain, and the actual amounts of funds withheld by companies for DR&R are nearly impossible to validate.
- In order to promote predictability for agencies, stockholders, industry and Alaskan residents, any new DR&R rules should be unambiguous, and the amounts companies have set aside should be verifiable and a matter of public record.
- Regardless of a corporation’s financial fitness, bankruptcies and defaults can and do occur. As a result, any new bonding or surety strategies must ensure all companies with DRR obligations, regardless of their financial wherewithal, set aside the resources needed to meet their DRR responsibilities.

In 2009, Pacific Energy Resource filed for bankruptcy, and one of its key assets was the Osprey platform off the West Forelands in Cook Inlet. Although a new operator emerged to take over the platform, the incident highlighted the risks to the state and its residents, who would have been left with tens of millions in DR&R costs had the new operator not surfaced.

“As the State of Alaska moves ahead with new DR&R rules, it must recognize the important lesson we learned from the 2008 financial crisis,” said Dr. John Talberth, Senior Economist with the Center for Sustainable Economy and the lead author on the report. “There’s no such thing as ‘too big to fail,’ and as a result, the state should require all entities – regardless of their financial fitness – to set aside funds for anticipated DR&R costs.”

The report will be provided to the Alaska Department of Natural Resources at a special workshop to be held in the Kahtnu Room, Second Floor of the Dena’ina Civic and Convention Center, Anchorage, Alaska, on Monday, September 9, 2013, from 9:00 a.m. to 11:00 a.m. Interested parties who wish to participate by conference call should contact the Division of Oil and Gas at 907-269-8800 to obtain the conference call number and access code.

The report is available at:

http://inletkeeper.org/resources/contents/drr/view
http://www.sustainable-economy.org

Additional information on Cook Inlet DRR:

DR&R 2013 Overview Letter from DNR
Map: Cook Inlet Oil & Gas Infrastructure
DNR Discussion Paper on Cook Inlet DR&R

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