



Rusty oil pipeline (Updated on 2006.08.12)

By CK Wong 2006.08.09

<http://www.ck-wong.ca/Energy/rusty%20oil%20pipeline%2020060809.pdf>

Introduction

On August 6, 2006 BP announced that the pipeline used by the Prudhoe Bay, Alaska has rust problem that requires to shutdown the oil field production to repair the leak caused by rust. The restart could take months. BP also announced that it would replace 73% of the pipeline from Prudhoe. Almost immediately, on August 7, DOE announced that the US Government could loan or sell crude from the SPR to make up the 8% lost of production. The crude price jumped from \$75 to \$77. With all these turmoil created by the news, DOE's Bodman spoke on behalf of BP that BP's American President said shut-in might not be needed while BP proceeds to shut-in all Prudhoe Bay production.

What is going on?

My questions 1 – Pipeline are inspection

All pipelines are supposed to be maintained and inspected regularly. There are also sensors to detect various type of problem. The purpose is to avoid any lost of usage due to lack of regular maintenance. There are service rail or road next to the pipeline so that the inspection could be done systematically. When there is rust, the flow pressure and the flow volume are definitely detectable through the sensors if it is internal. The leaky condition does not only localize but impact 73% of the pipeline which is not a small number. Why does the retroactive measures act at such late stage that requires a complete shut-in.

My question 2 – DOE responses too fast

After the damages caused by Katrina in 2005, it took weeks for the US Government to made a statement on whether SPR could be used. Why the DOE could make such a statement so fast? Would it be possible that the department aware of the situation for sometime and they just responded at the right time?

My question 3 – DOE spoke for BP

BP did not make any specific on the schedule, impact and work on the repairing of the pipeline. Mr. Bodman became the spokesperson of BP that the work requires months and later indicated that the shut-in is not needed and barge could be arranged.

My question 3 - Enough reserve?

EIA said that Prudhoe Bay production could only return to 400,000 barrel per day by January 2007. Since the reserve for the West Coast is 55.5 million barrel, it would last 139 days or about 4.5 months. So there is a shortfall for 1.5 month supply. By drawing this reserve, one has to assume there is no more other interruption of supply which is not

comforting. Further, how fast could the alternative source from Mexico, Columbia and Mid-East could be made?

My last question – Cover up?

Could this be a cover-up? I just left this to your imagination. If this is a cover-up how bad the American oil transportation infrastructure is? This is another question we should think about.

Update on August 12, 2006

From an article by Tom Fowler of Houston Chronicle, the BP Alaska pipeline corrosion was an issue of concern raised by Charles Hamel, a Virginia-based consultant, who wrote to BP's board member Walter Massey on May 22, 2004. More details could be found in [5].

Resources

[1] *BP to shutdown Prudhoe Bay Oil Field*, 2006.08.06, PR Newswire, <http://tdw2.globeinvestor.com/servlet/ArticleNews/story/PRNEWS/20060806/NYSU018/stocks/news>

[2] *DOE's Bodman: Consider both Loan and Sales from SPR*, 2006.08.07, Dow Jones, <http://tdw2.globeinvestor.com/servlet/ArticleNews/story/DJONES/20060807/200608071123DOWJONESDJONLINE000356/stocks/news>

[3] *BP: Will replace 73% of pipeline from Prudhoe Bay*, 2006.08.09, AP, <http://tdw2.globeinvestor.com/servlet/ArticleNews/story/DJONES/20060807/200608071503DOWJONESDJONLINE000529/stocks/news>

[4] *Bodman: Complete Prudhoe Bay shut-in may not be necessary*, 2006.08.08, Dow Jones, <http://tdw2.globeinvestor.com/servlet/ArticleNews/story/DJONES/20060808/200608081156DOWJONESDJONLINE000426/stocks/news>

[5] *Workers Warned BP of pipeline*, 2006.08.09, by Tom Fowler, Houston Chronicle, <http://www.chron.com/disp/story.mpl/headline/biz/4106789.html>