

Excerpt From PAA's Anticipated 10Q Disclosure Regarding Line 901



During May 2015, we experienced a crude oil release from our Las Flores to Gaviota Pipeline (Line 901) in Santa Barbara County, California. A portion of the released crude oil reached the Pacific Ocean at Refugio State Beach through a drainage culvert. Following the release, we shut down the pipeline and initiated our emergency response plan. A Unified Command, which includes the United States Coast Guard, the EPA, the California Office of Spill Prevention and Response and the Santa Barbara Office of Emergency Management was established for the response effort. Clean-up and remediation operations and contamination monitoring continue, and the cause of the release is currently under investigation.

Although the precise volume of crude oil released in connection with this incident has not been determined, following the release, we developed and have periodically updated a “worst case” estimate of the amount of oil spilled, which represents what we believe to be the maximum volume of oil that could have been spilled based on relevant facts, data and information available at the time of such calculation. Our worst-case estimate has been developed primarily using information regarding (i) an estimate of the amount of oil that flowed into Line 901 during the period between the estimated time of release and the point when the pumps were shut down and (ii) an estimate of the volume of oil that drained out of the line due to the natural force of gravity based on the characteristics of the pipeline (i.e., length, elevation profile, diameter and location of the release point). Using this “drain-down” methodology, our worst case estimate of the volume of oil released totaled approximately 2,400 barrels. We believe that the “drain-down” methodology represents the most straight forward and accurate calculation of the potential worst case discharge.

In the second half of June we completed the process of emptying and purging Line 901, which resulted in the removal of approximately 26,500 barrels of crude oil from the line. This activity provided additional data to assess the reasonableness of our worst case estimate of 2,400 barrels based on the “drain-down” methodology. Based on a preliminary analysis, an alternative calculation using the purge data could be as much as 1,000 barrels higher than the worst-case estimate calculated using the drain-down methodology. However, the alternative calculation does not take into account certain factors that could account for a meaningful portion of the difference between the two calculations and this reconciliation process is ongoing. As part of our effort to reconcile these differences, we have retained an outside, third party consulting firm to review the materials and submit a report, but such study has not been completed. Accordingly, to date we have not finalized our calculation of the “worst case” estimate of the amount of oil released from Line 901, and such volume estimate may change as additional facts, data and information are analyzed during the course of the investigation of this incident. Any variance between the current and final estimate of the worst case discharge is not expected to impact our estimate of response, clean-up and remediation costs, but could impact our estimate of fines and penalties.