

## Accounting 484: Environmental Accounting

### The Olympic Pipe Line Company Explosion in Bellingham

On June 10, 1999, Olympic Pipe Line Company's (OPC ) pipeline through Bellingham, Washington leaked 229,908 gallons of gasoline into a local creek.<sup>1</sup> The gas was ignited and a huge fireball shot into the sky, creating a thick, black cloud that was visible for miles. Three local youths died in the fire and a forested city park surrounding the salmon-spawning creek was devastated. Actions taken subsequent to the explosion by OPC officials undermined the legitimacy of the company with the community of Bellingham. Consequently, the community of Bellingham banded together to call for stricter pipeline regulations in what appeared to be an unprecedented grass-roots effort to make regulatory changes in the pipeline industry.

At the time of the explosion, OPC was owned by four publicly-traded corporate owners: Texaco (16.5%) and Shell (21%), through a joint venture called Equilon Enterprises; Arco, which subsequently merged with BP Amoco (37.5%); and GATX (25%).

### Background information<sup>2</sup>

At the time of the explosion, OPC 's pipeline system totaled approximately 400 miles and transports gasoline, heating oil, diesel fuel, and jet fuel from four refineries to Seattle and Portland, Oregon. The pipeline supplied all the jet fuel to Seattle-Tacoma International Airport. Two of the refineries are approximately 10 miles north of Bellingham in Ferndale, Washington and the other two are approximately 30 miles to the south of Bellingham in Anacortes, Washington. The pipeline was operated by Equilon Enterprises (a joint venture between Shell and Texaco) with the pipeline control center located in Renton, Washington. Equilon's management was based in Houston, Texas, in Shell's U.S. corporate headquarters. The pipeline was composed of one-half inch thick steel of various diameters, ranging from six to 20 inches. The pipeline was, and still is buried three to four feet underground. It transports approximately 12.8 million gallons of fuel per day, and has been in operation since 1965.

At 3:30 p.m. on June 10, 1999, a 16-inch diameter portion of the pipeline ruptured and began dumping fuel into Whatcom C reek in Whatcom Falls Park. Within an hour, an 18-year old man who was fishing on the banks of the creek was overtaken by the vaporous fumes and drowned in the creek. Shortly after 5 p.m., two ten-year old boys who were playing with a butane lighter by the creek accidentally ignited the vapors. A huge fireball exploded around the boys and a burning river of fuel raced out of the park and toward the central business district of Bellingham. The fire burned for approximately an hour, destroying vegetation adjacent to the creek and killing life living in it.<sup>3</sup> Small spot fires continued to burn for five additional days. The boys were burned over 90 percent of their bodies and were flown to a Seattle hospital. Both boys died in the early-morning hours of the next day.

In the ensuing days, OPC officials met with local citizens, vowing to restore community confidence in the company. Unfortunately, actions taken by certain OPC employees combined with a less-than stellar maintenance record left many Bellingham residents outraged. On June 23, 1999, five Olympic employees, including several control-room operators and a supervisor, refused to speak with federal investigators by asserting their Fifth-Amendment right against self-incrimination. Apparently, OPC paid for the employees' attorneys. By June 28, 2000, three additional OPC employees plead the Fifth Amendment. Among these were OPC 's president and vice president.<sup>4</sup> On July 13, 1999, an internal OPC document from 1996 revealed that the pipeline had 250 potential defects but OPC considered the vast majority too minor to repair. Three of the defects were in the section of pipe that ruptured in Bellingham. This document, combined with the employees' refusal to cooperate with investigators, served to severely undermine OPC 's legitimacy within the Bellingham community. On July 15, local citizens organized a pipeline safety group (SAFE Bellingham) and demanded that the pipeline remain closed until the investigation was complete.<sup>5</sup>

The Office of Pipeline Safety (OPS), a division within the Department of Transportation, develops, issues, and enforces pipeline safety regulations for the nation's pipeline system. This pipeline system transports almost all the natural gas and approximately 65 percent of the hazardous liquids (e.g., crude oil, diesel fuel, gasoline, and jet fuel) used in the United States. The regulations developed by OPS contained minimum standards that pipeline companies must meet in the design, construction, inspection, testing, operation, and maintenance of pipelines. An analysis of OPS data (obtained from the OPS website) indicates that pipeline accidents are not isolated occurrences. In fact, they happen almost every day. In the last 20 years, there have been 3,576 accidents nationwide, with a total loss of 3.2 million barrels of hazardous liquids.

## **QUESTIONS FOR DISCUSSION:**

1. What are the accounting and business issues related to this crisis?
2. Who are the stakeholders? For our next class, please sign up for a specific stakeholder role. On April 5, we will begin discussing an environmental disaster, including a look at the issues and the stakeholders. From the point of view of your stakeholder role, write about the "stake." What is important to you regarding this issue? What are your needs in terms of transparency and accountability? What should be the financial and non-financial reporting requirements for the company/companies involved from your perspective. This essay should be about 300-400 words in length. Be prepared to role-play in class. Bring a prop that represents your role.

## **Footnotes**

- 1 Pipeline companies involved in spills are charged with initially determining the approximate amount of the spill. It is possible that the actual amount spilled may far exceed this estimate.
- 2 Much of the information in this section was obtained from articles appearing in the local newspaper, The Bellingham Herald.
- 3 It was fortunate that the fuel was ignited as soon as it was. The devastation, including the loss of additional human life, could have been much worse had the ruptured pipeline continued to spill gas into Whatcom Creek.
- 4 The reason for not cooperating was the fear that federal prosecutors would use their testimony against them in potential criminal cases arising from the explosion.
- 5 Several days after the explosion city officials realized that the franchise agreement between the city and OPC had expired five years earlier. This agreement allows OPC to operate its pipeline on city-owned land. Consequently, the city had leverage over OPC to force them to cooperate in investigations and carry out certain safety conditions before allowing the pipeline to reopen. Had the agreement been in place, OPC could have replaced the damaged segment of pipe and reopened the line within a couple of weeks.