

UPDATE 2-U.S. reviews BP's Alaska project plans

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- * Interior looking into BP's Liberty project
- * Project located on man-made island in Beaufort Sea
- * BP shares fall on concerns over review

(Recasts, updates stock price, adds comments from BP)

By Ayesha Rascoe and Yereth Rosen

WASHINGTON/ANCHORAGE, Alaska, June 24 (Reuters) - The U.S. government is reviewing BP Plc's (BP.L) (BP.N) Alaska drilling plans after a report that the company's project did not receive proper environmental oversight, a senior official said on Thursday.

"We are looking into the issue right now," U.S. Interior Secretary Ken Salazar told a Senate Energy and Natural Resources committee hearing when asked about the reports about BP's Liberty project, located on a man-made island in the Beaufort Sea about 15 miles east of Prudhoe Bay.

BP's U.S.-listed shares fell 3 percent to close at \$28.74 after Salazar's comments, as investors worried about BP's future and estimates grew of total liabilities from the company's massive two-month-old Gulf spill.

"Think about it. How many holes can you have in a bucket? There are just too many problems," said **Joe Saluzzi**, co-manager of trading at **Themis Trading** in Chatham, New Jersey.

The Liberty development, which was approved by regulators two years ago, is slated to tap an estimated 100 million barrels of recoverable oil, according to BP's website, making it a mid- to small-sized field by global standards.

"In light of the BP oil spill in the Gulf and new safety requirements, we will be reviewing the adequacy of the current version of the Liberty project's spill plan," Interior spokeswoman Kendra Barkoff said in a statement after the hearing.

BP said it does not believe this project is covered by the administration's six-month moratorium on deepwater exploratory drilling, which halted all forms of deep-water drilling in all federal waters.

"It's a land-based rig, on a 30-acre gravel island connected to the shore with a broad gravel causeway. It is not an exploration project," said BP Exploration Inc spokesman, Steve Rinehart.

BP will "cooperate fully" with any government review of the project, Rinehart added.

The department also said the project will have to comply with recently issued safety rules, including requirements for detailed blowout prevention and response plans.

Last month the department postponed Royal Dutch Shell's (RDSa.L) plans to drill this summer in Alaska's Beaufort and Chukchi Seas. Prior to the Gulf oil spill, the administration had already canceled proposed lease sales in those offshore areas.

The New York Times reported on Wednesday that the agency responsible for offshore energy oversight allowed BP to write its own environmental review for the project.

Michael Bromwich, head of the Bureau of Ocean Energy -- formerly known as the Minerals Management Service -- said the bureau has asked the department's regional office in Alaska for more details on the project's oversight.

MMS in 2008 approved BP's Liberty development plan, but a spokesman at the agency's Alaska office said there has not yet been an application for a drilling permit.

Rinehart said BP plans to begin drilling its first development well this fall, and will apply for the federal drilling permit in advance of that.

First production is anticipated in 2011, he said. (Additional reporting by Caroline Valetkevitch in New York; Editing by Jim Marshall and David Gregorio)