

U.S. House of Representatives
Energy & Commerce Committee
Subcommittee on Oversight & Investigations

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Robert A. Malone
Chairman and President, BP America Inc.

Written Statement

My name is Bob Malone and I am Chairman and President of BP America Inc. BP America and its subsidiaries employ more than 36,000 people and produce 666,000 barrels of crude oil and 2.7 billion cubic feet of natural gas per day. We operate five refineries with a capacity to process nearly 1.5 million barrels a day of crude oil, and a system of pipelines and terminals throughout the United States that supply over 70 million gallons per day of gasoline and distillate fuels to customers in 35 states.

We are privileged to operate the largest oil field in North America – Prudhoe Bay on Alaska’s North Slope (Exhibit 1). The Texas City Refinery is our largest and most complex refinery (Exhibit 2). Our charge is to operate these assets in a safe, efficient and environmentally responsible way for the benefit of neighboring communities, our business partners, our customers, our employees and our shareholders. The public’s faith in us has been tested over the last two years by the tragic explosion, fire and deaths at Texas City and by corrosion in the oil transit pipeline system that moves processed crude oil from Greater Prudhoe Bay to the Trans Alaska Pipeline System (TAPS).

These experiences have changed BP and all of us who work for the company. We are determined to learn from what happened and to become a better, stronger company. I was sent here in July 2006 by our Group CEO and the BP Board, to lead that effort. I came with a set of principles that guide my work in the U.S. We are making progress towards our goals. However, there is much to do and accomplishing all that needs to be done will take time.

I was asked by Chairmen Dingell and Stupak to address whether budget pressures led to the corrosion and leaks which occurred last year on the oil transit lines at Prudhoe Bay. Additionally, they asked whether we suspended the use of corrosion inhibitor chemicals for extended periods of time due to budget pressures.

We have found there was false sense of confidence in the effectiveness of the existing corrosion management program and in the condition of the oil transit lines. BAH concluded that in the absence of better risk assessment processes, budget increases alone would not have prevented the leaks. Our own work has revealed that the workforce did not have an adequate process to challenge their own assumptions.

This question is also addressed in a recent investigation conducted for me by Booz Allen Hamilton (BAH). Their report, and other documents produced to this subcommittee, makes it clear there was a concerted effort to manage the costs in response to the continuing decline in production at Prudhoe Bay. The documents also reveal that the effort to manage costs frustrated some workers who were accountable for delivery of certain aspects of the corrosion management program.

Booz Allen Hamilton concluded, however, that the leaks that occurred on the OTL system last year resulted not from budget pressures, but primarily from the lack of a formal, holistic risk assessment process that was sensitive to changing operations and conditions in the field.

We are making the corrosion management program improvements recommended by Booz Allen Hamilton. We are adding people and resources. And most importantly, we are revamping our corrosion management strategy. At the heart of that strategy will be a comprehensive risk assessment process sensitive to changing operating conditions. The strategy will apply to all Greater Prudhoe Bay facilities and systems and will utilize an industry recognized, proven and commercially available risk based inspection (RBI) program.

We understand that budget pressures, poorly managed, can impact the culture of an organization. It can lead to a “make do/can do” mentality. It can dampen the willingness of people to raise concerns or think in new or different ways – especially if they believe they will not be heard or that there is no money to spend on their idea or concern.

We now know as a result of the studies done at both Texas City and Alaska and from our own employee surveys that we must change the way we identify, assess, understand and communicate risk. We also recognize that we must do a better job of listening to and resolving employee concerns. And finally, we understand that we must change the way we integrate what we have learned into our operations and our budget decisions.

Better communication and better risk assessments will mean better budget decisions. The foundation of this risk management process is to understand that occupational safety, process safety and environmental standards cannot be compromised. The next step is to be equally clear that budget discussions recognize and address our priority of safe, reliable operations.

BP America is committed to safety, and the expectation of our management is that budget guidelines should never result in a compromise in safety performance. That is and has long been our philosophy, but we believe we can improve the way we receive and resolve employee concerns and enhance the way we identify, assess, eliminate and/or

manage risk, and that, by doing so, we can make sure that that philosophy is more than just words.

Chairman Dingell referred us to several email communications from the Alaska workforce that BP America has provided to the Committee regarding budget pressures and considerations about ways to lower budgets or limit budget overruns. We are researching the situations described to determine how the issues raised in those emails were ultimately resolved. The frustration evident in some of those emails causes me concern. It is clear to me the employees were troubled by some of the cost-saving options identified for consideration. I am encouraged, however, that they were making their concerns known.

Regarding the use of corrosion inhibitor chemicals, an investigation is being conducted by the BP Ombudsman, Judge Stanley Sporkin. This investigation will include a review of documents and interviews with personnel and is expected to be completed in July. I expect that Judge Sporkin will keep you apprised of his progress, and I will share his final report with the Committee upon completion. However, we are not waiting on the outcome of this investigation to take action. BP America has

initiated a review of our inspection programs for all North Slope facilities and systems. This will verify the current condition of the pipelines and processing facilities, identify concerns in each operating area and inform the implementation of the comprehensive RBI program.

I am here today to provide you with an update on the commitments I made at the hearing last September; update you on the status of the Greater Prudhoe Bay Oil Transit Line replacement project; share what we have heard and learned from the reports and studies of the incidents; and outline the actions we are taking to reestablish BP as an industry leader in the area of process safety and to restore the faith and confidence of the American people in our operations.

September, 2006 Commitments

I committed to initiate a number of actions to drive operational and safety change within BP America, and I am pleased today to report back to you on the progress we have made in fulfilling these commitments:

1. I retained three of the world's foremost experts on corrosion and infrastructure management. They have received unhindered access to review our corrosion management system on the North Slope and

to suggest management and operational changes to improve it. Their report will be complete this summer. We will apply what we learn to all of our pipeline operations.

2. BP America committed to significant spending increases to upgrade all aspects of safety at our refineries. We have publicly committed to spend \$7 billion to improve those operations. In addition, we have more than doubled our spending on major maintenance projects in Alaska.
3. I appointed retired U.S. District Court Judge Stanley Sporkin, as Ombudsman, reporting directly to me. He has initiated a review of all worker allegations that have been raised on the North Slope since 2000 and has conducted other reviews to investigate concerns raised by our employees.
4. I created an Operational Advisory Board, composed of fifteen senior business leaders in BP America, to lead our effort on safety, operational integrity and compliance. This group meets quarterly and each member has committed to implementing a different, holistic approach to managing U.S. operations.

5. I have recruited an External Advisory Council to assist and advise me on all aspects of BP America's US businesses and to focus in particular on safety, operational integrity, compliance and ethics. We have met as a Council twice, most recently two weeks ago. That meeting included a day at the Texas City refinery.

6. I have built my own team of internal experts on employee safety, safety culture, process safety, operational integrity, and compliance and ethics to assist me in monitoring these aspects of our business.

7. I continue to meet with employees to reinforce my expectations of them: that they must ensure that our operations are safe, that they understand they have both a right and responsibility to shut down any process they feel is unsafe or operationally unsound, and that they are encouraged to raise concerns on any issue. This engagement has been through town hall meetings, site visits, conferences, email and internal company publications. I have even created my own web blog to communicate with employees.

These conversations have provided me with encouragement that we are on the right path. In fact, in a survey now being conducted on the North Slope by the Ombudsman's office, 98% of respondents would

report issues that impact health, safety or environmental protection; and the safety culture survey indicates that 97% of employees believe they have the ability to report and to stop any unsafe operation. Further, 92% felt comfortable reporting concerns directly to their supervisors or line managers. Similarly, across refinery operations, we have initiated a “Stop Work If You Think It Is Unsafe” program as a condition of unit startups.

I have also been to Texas City and the North Slope a number of times and the work I have witnessed demonstrates that all of us are unified behind the need and the desire to improve. The milestones achieved at Texas City and Alaska are significant. At Texas City, those milestones include:

- Nearly 300,000 hours of leadership and other training;
- A total rebuilding of the training program with more than 30 new instructors;
- More than 400 new people hired;
- 15.5 million man-hours worked in 2006 – 3 times the average U.S. refinery -- under entirely new safety systems;
- An infrastructure renewal program so large that it requires scaffolding sufficient to scale Mt. Everest 7 times; and
- A complete overhaul and safe re-commissioning of the 27-mile steam system.

Similar achievements have been made on the North Slope during this past Arctic winter:

- Since the incident we have completed 21,000 ultrasonic tests on the oil transit lines;
- Since the incident we have removed insulation and inspected and re-insulated more than 43,000 ft (8 miles) of pipe;
- Since August 2006, we have increased BP employees on the North Slope by more than 10%; and
- We had 110,000 construction man-hours worked this winter on oil transit line replacement without a lost time accident or recordable injury.

Oil Transit Line (OTL) Replacement

Prudhoe Bay's oil transit line system is undergoing a major upgrade, initially focusing on rebuilding the field's most critical pipe segments, a phase that will take until the end of next year. By then, we will have installed approximately 16 miles of oil transit lines from the flow stations and the gathering centers to Skid 50, near the starting point of TAPS.

The winter 2007 construction season recently ended. I am pleased to report that approximately 8 miles of new pipe has been installed. This feat is impressive given that during the 3-month construction season more than

600 workers constructed 8 miles of ice roads, installed 680 vertical support members, performed 1,250 welds and installed this nearly 42,000 feet of new pipe all in sub-zero arctic conditions.

Who has informed BP America's thinking?

The progress made in Alaska and the actions taken at Texas City are among the many examples that prove that BP America is a different company than it was six months ago. This change has only been accomplished with the support of our employees, management, and the entire BP Group. And, this is why I am confident that we are on the right path to distinguish ourselves as a leader in personnel safety, process safety and operational integrity.

However, these early actions are just the starting point. There is much more to do to drive renewal within BP America. The first step of renewal was to assess the incidents, take the learnings and then develop a set of actions to respond. Since the Texas City tragedy and the Alaska pipeline incidents, BP America has commissioned a number of studies and also received third-party reports that have assisted us in our efforts. These reports and studies have been freely shared with state and federal

regulators and Congress and are supporting the changes occurring within BP America.

I would like to briefly describe the nature of these reports; how they were received by BP America and the actions we have taken or are contemplating as part of our operational renewal plans within the U.S.

Booz Allen Hamilton Study

I commissioned Booz Allen Hamilton (BAH), as an independent third party, to identify any organizational, process, information systems and/or governance issues that may have contributed to the March and August 2006 oil transit line (OTL) leak incidents. BAH conducted its study between November 2006 and January 2007 and recently delivered its final report. BAH received BP's full cooperation during its review. The consultants interviewed past and present members of the Alaska management and Corrosion Inspection and Chemicals (CIC) teams and were provided all documents they requested as part of their review. I understand that some questions about the report have recently been raised by the Committee, and we are working with Booz Allen Hamilton to provide the answers.

Independent Corrosion Assessment Team Study

I initiated this study in August 2006, just after the shutdown of the Eastern Operating Area (EOA) of the Prudhoe Bay field, to provide an independent assessment of our Alaskan operation's current corrosion management program and to make recommendations needed to firmly establish the program up to an industry-leading position. This is a "forward looking" study that is intended to meet the needs of our commitment to a fifty-year future in Alaska.

To develop recommendations, an Independent Corrosion Assessment Team (ICAT) was assembled comprised of two internationally recognized experts in corrosion mechanisms and an internationally recognized expert in large asset management. The ICAT will issue its final report this summer.

Additionally, a BP Alaska Corrosion Strategy – overviewed by members of the ICAT - is complete and is being implemented.

Legacy Employee Concerns Study

During the hearings last year, I committed to review all employee concerns raised at our Alaska operations since 2000 to determine whether there were any unresolved issues or whether the resolution of concerns adequately addressed matters that presented health, safety or environmental questions. This task was assigned to the Ombudsman's office, and they retained MPR, Inc., an independent engineering firm, to assist in the review and disposition of the technical issues.

The initial task was the collection, review and categorization of the historical employee issues. There are approximately one thousand concerns in the Legacy Review Issue process at this time. While none of the issues has been identified by the Ombudsman's office as representing an imminent safety threat, the analysis work is ongoing.

The Committee staff has had an ongoing dialogue directly with my Ombudsman regarding his investigations. A final report from the Ombudsman's office on the Legacy Issue Review will be provided with identification of issues needing further evaluation or corrective action. The target date for completion of this project is July, 2007.

No Tolerance for Retaliation

On the broader issue of employee retaliation, BP was asked to ensure that there is no tolerance for retaliation against workers who raise safety and health concerns and to provide a transparent mechanism to ensure concerns are resolved in a timely manner.

BP does not tolerate retaliation against workers who raise safety concerns. It is prohibited by our Code of Conduct and I have made it clear that I expect appropriate action to be taken to anticipate and prevent, or mitigate, any such incidents or behaviors that may discourage workers from raising safety, environmental or other concerns. However, I also recognize that tackling long term behaviors takes time and training.

BP America has a number of systems and processes for resolving employee concerns including the BP “Open Talk” Program and the Ombudsman’s office. BPXA currently has seven different avenues – we are evaluating how to streamline these avenues for greater effectiveness and efficiency, but for now we would rather have more opportunities than fewer.

Compliance Order by Consent (COBC) review

Following the hearing in September 2006, the Oversight and Investigations Subcommittee asked BP America to investigate whether BPXA failed to disclose information regarding its awareness of sediment in the OTLs to the Congressional staff prior to the hearings, and, if so, to explain that failure.

This concern arose because of the post-hearing identification of a 2002 Compliance Order by Consent (COBC) entered into between BPXA and the Alaska Department of Environmental Conservation (ADEC) that referred to the existence of sediment in the lines.

In November 2006, I asked Billie Garde, as a consultant, to conduct an investigation on behalf of BP America and to provide a report to me. An interim report has just been completed and a briefing of the interim findings has been provided to Committee staff, at its request. The investigation found that our preparation for the September, 2006 hearing was not based on all information available to the corporation, and thus neither I nor the Committee Staff had information that may have been helpful for the hearing. For that, I apologize.

Fatal Accident Investigation Report - Isomerization Unit Explosion Final Report (Mogford Report)

Following the March 23, 2005 incident at the Texas City Refinery, BP assembled an incident investigation team, led by John Mogford, to identify the underlying root causes of the incident. On May 17, 2005, the team released an interim report to communicate its preliminary findings. The team released its final report on December 9, 2005. The report was intended to deepen understanding of the causes of the incident; to recommend corrective actions to prevent recurrence of a similar incident; and to improve safety performance at the site. The investigation used the BP root cause methodology supplemented by guidance issued by the Center for Chemical Process Safety.

The interim report made recommendations in the areas of: (1) People and Procedures; (2) Control of Work and Trailer Siting; and (3) Design and Engineering. The final report augmented those recommendations and made a significant number of additional detailed, site-specific proposals for corrective actions designed to address the root causes and underlying cultural issues identified by the investigation team.

BP U.S. Refineries Independent Safety Review Panel (“Baker Panel”)

Pursuant to a recommendation from the Chemical Safety and Hazard Investigation Board (CSB), BP convened an independent safety review panel, chaired by former U.S. Secretary of State James A Baker III to assess process safety management systems and safety culture at its five U.S. refineries.

The Panel carried out its work throughout 2006 and reported its findings in 2007. The report is hard-hitting and unique. We have committed to implement all of the report's recommendations, and many measures have already been taken, or are underway, a fact the Panel recognized when it observed that "since March 2005, BP has expressed a major commitment to a far better process safety regime, has committed significant resources and personnel to that end, and has undertaken or announced many measures that could impact process safety performance at BP's five U.S. refineries."

U.S. Chemical Safety and Hazard Investigation Board

The CSB report addressed the causes of the Texas City incident. We recognize and appreciate the effort CSB put into this investigation.

BP America will implement actions consistent with the recommendations of the CSB and will communicate this to Chairman Merritt within the next few days.

Learnings

What did these reports teach us and how have they informed our changes?

We have spent considerable time analyzing the findings of these studies and integrating their recommendations into a cohesive plan to help BP America grow to become an industry leader in process safety. We found these reports to contain several common themes that have been incorporated into our new operating management system (Exhibit 3).

These common themes and some corresponding observations are shown below:

1. Communications and Leadership - The reports indicated that some concerns were either not communicated effectively or sufficiently heard. The organizational culture must consistently encourage greater upward and cross-functional communication. The Mogford report regarding Texas City, for example, noted that a “lack of leadership visibility and poor communication through the complex siloed organization did not assist in delivering the right messages” regarding the priority of safety at the site.

2. Management's Technical Knowledge - As observed in the Booz Allen Hamilton report, because the corrosion group "was hierarchically four levels down from senior leadership, corrosion risk management had less visibility." As a result, "the technical evaluation of corrosion risk was not challenged by senior management to fully understand the tradeoffs made within CIC and at the Field Operation level." Regarding management knowledge at Texas City, the Mogford report stated "there needs to be a greater line management understanding and ownership of process safety management."
3. Accountability and Clarity of Expectations - BP America's entrepreneurial culture engendered significant discretion and autonomy to its business unit leaders, and expectations, responsibilities or accountabilities were not always well understood. Greater organizational clarity must be pursued to ensure understanding of operational accountabilities.
4. Knowledge, Expertise, and Training - Technical and institutional knowledge in some businesses rested with a few key individuals. Greater depth and technical capability needs to be embedded more consistently across the organization. BP America has begun to substantially increase the number of hires, training and the knowledge base across the U.S.
5. Risk Identification and Assessment - BP America businesses have always conducted risk assessment across their operations but those

assessments were not always the result of a comprehensive, systematic risk assessment process that was consistently applied throughout the businesses. The Mogford Report observed that the Texas City site had “no comprehensive and consistent business plans focused on the systemic reduction of process risks.” The Booz Allen Hamilton Report found that “there was no formal, holistic risk assessment process for pipeline integrity.”

6. Effective Process Safety/Integrity Management System - As operational and environmental conditions changed, BP America’s systems and processes haven’t been sufficiently sensitive to make the corresponding adjustments. These processes must be more flexible and subject to greater input and challenge from the organization.

7. Sufficiency of Resources – We now know as a result of the studies done at Texas City and Alaska and our own employee surveys that we must make changes in the way we identify, assess, understand and communicate risk. We must also change the way we integrate that knowledge into our operations and our spending decisions. I believe that better risk assessments will lead to improved budget discussions and spending decisions will be better as a result.

BP has a strong cost-focused performance culture. We made a virtue out of doing more for less. The mantra of more-for-less says that we can get 100 percent of the task completed with 90 percent of the resources. This approach needs to be deployed with great judgment and wisdom. When it isn’t, we run into trouble.

We are committed to safety and the expectation of our management is that budget guidelines should never result in a compromise in safety performance. We believe we can come closer to always achieving this goal by improving the way we receive and resolve employee concerns and by enhancing the way we identify, assess, eliminate or manage risk. Safety must be the overriding priority in all we do – and it will be.

8. Audit, Compliance, and Monitoring - We have several different systems for monitoring and auditing performance and compliance. Enhanced rigor must be applied together with common standards, appropriate capabilities and adequate resources to follow up and address identified concerns. According to the Mogford Report “[audit] action items did not appear to be tracked and effectively closed.” The Booz Allen Hamilton Report observed that “a number of key assurance processes (e.g., Audit, Management of Change) were not ‘closed loop’ to ensure that required changes were truly implemented and documented.”

9. Process Safety as a Core Value - Process safety must be instilled as a core value. BP America has always held safety as a core value as reflected in the company’s concerted effort to continually reduce the number of workplace injuries and fatalities across its operations. The success of this effort can be seen in our occupational safety performance metrics. At Texas City, the company reduced OSHA injury rates by more than 70 percent in the five year period before the March 23 explosion. We relied on these metrics as an indicator of process safety as well. We now understand that this reliance was a mistake.

In addition, we are taking action in the area of worker fatigue and overtime, adherence to formal processes and incident investigations and reporting.

The Operating Management System

We are folding BP America's Health, Safety & Environment management system into a broader, comprehensive operating management system. This new system is based on the International Standards Organization's management system framework and is designed to support a more rigorous approach to compliance and risk management. Implementation of the system, which will be introduced to BP operations worldwide, is first taking place in U.S. refineries, Alaska and other selected locations.

This enhanced framework provides clear guidance in what we have defined as the eight elements of operating in BP America: risk; procedures; assets; optimization; organization; leadership; results; and privilege to operate.

At its core, the framework helps define and add clarity to the people, plant, process and performance measures facilities need to undertake to ensure reliable, safe operations. We have begun to implement this new system in Alaska through the "Renewal" program and at Texas City through the

“Focus on the Future” program. In both cases, we are integrating the learnings from the expert studies and analyses and adopting action plans that focus on critical operational components.

How has OMS influenced BP’s Operations?

The operating management system framework is changing the way BPXA approaches the people, plant, process and performance issues that influence our operations (Exhibit 3).

People

The new head of BPXA has assembled a new leadership team since last September with a renewed emphasis on operational capability and clarity in their accountabilities. An example of this is the separation of technical assurance from operations.

To achieve this, BPXA created and staffed a Technical Directorate organization of 150 technical experts that are responsible for setting and verifying the standards to which BPXA will operate. The Directorate will review budgets of the line and provide assurance that major risk items are

adequately funded. They are independent of the line organization and have direct accountability to both me and the President of BPXA.

Similarly, the oil transit lines will now be managed as a system by a single area manager. This will ensure better oversight and accountability over their operation.

Plant

When we committed to replace the 16 miles of oil transit line serving Greater Prudhoe Bay, we could have approached the project as simply a repair and maintenance project. That is, replace the existing pipe with new pipe of the same composition and quality using existing associated infrastructure. In fact, our preliminary plan announced in August 2006 reflected just that scenario. However, upon further analysis and with a view to the future, we decided to incorporate additional technologies into the project to ensure oil transit line integrity and long-term safe operations.

An important component of this project was the engagement and involvement of the field operations staff in the planning and design of the new pipeline facilities. In addition, we re-designed the project to

incorporate best available technology designed both to enhance daily operations and streamline its use. The OTL system will include a range of leading technology and equipment, such as improved corrosion-resistant pipe (insulated carbon steel with special epoxy coating) and elevated vertical support members where possible, upgraded ancillary pipeline facilities, addition of permanent pipeline pigging facilities, improved corrosion monitoring and new leak detection systems.

New above-ground structure (Exhibit 4)

To protect the fragile tundra environment and wildlife, the project is installing hundreds of Vertical Support Members designed to hold the pipeline higher above the tundra. Where possible, the new 7-foot clearance will protect the permafrost, accommodate wildlife movement, discourage snowdrifts and support more effective and efficient pipeline maintenance activities.

Better ancillary pipeline facilities

Pipeline facilities throughout the system will be equipped with best available technology, operator-friendly equipment. Twenty new modules

will support operations and enhanced maintenance of the pipeline, built with an eye toward the future and easy worker access to equipment.

Key elements of this system include equipment to measure and remove factors associated with corrosion that can lead to pipeline leaks. The factors associated with the recent leaks -- stagnant water, sediment buildup, and bacteria -- have been “engineered” out of the new pipeline system.

The infrastructure will include the necessary facilities to support use of “maintenance pigs,” capsule-shaped devices that run through the pipeline to clear out sediment and stagnant water; “smart pigs,” devices that measure pipeline wall thickness; equipment that injects corrosion-inhibiting chemicals directly into the oil transit lines; and a demonstration project to determine if a new, highly sensitive leak detection technology that allows detection of even small leaks, will work in above-grade Arctic piping.

New permanent pigging facilities (Exhibit 5)

The OTL project upgrade includes permanent, heated facilities that accommodate maintenance and smart pigs, as well as newer higher-quality

equipment. The new facilities, designed for access to all equipment, will include new pig “launchers” at upstream locations and “receivers” at downstream locations so a maintenance pig can be inserted into a stream of oil to clean out the pipe or a smart pig can be inserted to inspect and diagnose internal and external pipeline corrosion.

The new modules will allow us to run maintenance and smart pigs regularly. Maintenance pigs, run on a routine basis, will help to reduce water and sediment build-up. Any solids resulting from regular runs will be analyzed for bacteria growth and/or sediment build-up to help identify changing conditions in the pipeline system. Pipeline and corrosion specialists will then make appropriate adjustments in operations or inspections.

New equipment to support “chemical-injection”

By cleaning the inside of the pipe through pigging and “sweeping” fluid velocities, corrosion-inhibiting chemicals are much more effective at adhering to the pipe surfaces where they both coat the internal pipe and are toxic to bacteria. We are installing equipment that will inject these chemicals directly into the transit lines, rather than relying on carry-over

from upstream applications. This equipment will work hand-in-hand with our corrosion-monitoring techniques.

Leak detection (Exhibit 6)

Complementing pigging and corrosion control is a new leak detection system to measure the volume of flow in the line. This new equipment will be installed as the primary system for the entire OTL renewal project.

The primary method will use several types of meters, including a new software program, to read the volume of liquid going into and coming out of the pipeline segments. This system is designed to detect leaks as small as 1% of the flow rate, as well as catastrophic leaks.

The secondary pilot system uses a chemical analysis method that passes an air sample past a hydrocarbon analyzer, which indicates whether any crude oil has escaped from the pipe and, if this has happened, triggers an alarm. This method is intended to detect pinhole leaks, such as the ones experienced in 2006.

Process

Underlying these new investments and organizational changes is the adoption of new risk assessment and management procedures. These tools will allow us to better identify, evaluate and target concerns with adequate budget support. BP has already initiated risk-based inspections for its entire North Slope operation and modified its operating and maintenance practices on the OTLs. For example, CIC staff has been doubled and they have expanded their work to include greater interaction with operations personnel and with in-field inspectors including face-to-face dialogue and more rigorous hands-on-pipe visual and other inspection protocols.

Performance

Management assurance has been facilitated by the adoption of a new closed-loop safety and operations integrity management system. This new system will incorporate clear leading and lagging indicators, enhanced communication and transparency up the line, formal reporting and clear authorities and accountabilities that are properly linked to incentives. The BP Group Safety Culture & Leadership initiative is well underway for Greater Prudhoe Bay, and is beginning at other facilities. Culture change is among the goals of the OMS process.

While it is clear that OMS has begun to drive renewal in Alaska, behaviors have also begun to change elsewhere in the organization. Recently, the steam provider to our Toledo refinery experienced a plant upset causing a loss of steam to the refinery. The refinery initiated emergency shut-down procedures as designed and without incident. A day later, as Toledo began normal restart, personnel noticed a leak on one of the overhead lines from a process unit. The refinery was again taken down and upon inspection, it was determined that a stress fracture had occurred on a pipe weld during the initial steam-provider induced refinery shut-down. We could have performed a spot repair on the unit and continued restart operations but, informed by a comprehensive risk assessment, we are performing additional unit inspections to properly identify any other impacts, perform repairs and initiate safe restart. This is exactly the behavior that OMS drives and what I am reinforcing throughout BP America's operations.

Conclusion

Much of my job over the past year as Chairman and President of BP America has been to assess and develop new standards of operation and to ensure that the standards we have set are met.

When I appeared before the Committee last September, I asked that we be measured by “what we do, not what we say”. We have made tremendous progress over the past several months due to the deep commitment of BP America’s management and employees to this renewal process. I am pleased with the progress but not yet satisfied.

Renewal is taking hold. We are investing for the future but the process of renewal will take a number of years to fully realize. Similarly, culture change will require the same sustained commitment of management for employees to embrace BP America’s new OMS model.

I know that BP America and its 36,000 employees are up for the challenge. My commitment is to make this all happen.

Exhibit 1

BP in Alaska — Building a 50-Year Future



The hallmarks of the Alaska business are its large resource base (second only to Russia in BP's portfolio) and its 50-year future. The BP Alaska strategy focuses on these known resources in order to: 1) manage the decline of light oil production; 2) unlock heavy oil; 3) renew our facilities, infrastructure and people; and 4) bridge to future gas production.

BP Alaska underpins BP's worldwide operations, accounting for 7% of the company's global production and almost 7% of the global E&P capex budget. Our strategy is shaped to support the existing profit center's framework by exploiting our known resource base and delivering strong free cash flow to the business.

BP Alaska operates five producing units including Prudhoe Bay (the largest oil field in the U.S.), four common carrier pipelines, and owns a significant interest in the Kuparuk River Unit. Our Midstream business provides oversight for our 47% interest in the 800-mile Trans-Alaska Pipeline System as well as chartering and overseeing the performance of a fleet of tankers that transport North Slope crude oil over 2,100 miles to the U.S. West Coast. The workforce is comprised of 1,035

bp employees on the slope and 585 bp employees in the Anchorage office. Additionally, bp relies on more than 2,000 contractors statewide.

BP Alaska is on the frontier of a new future; a future that can be long and sustainable if the challenges of that frontier are met. As of January 1, 2007 BP Alaska's net cumulative oil production was approximately 6.2 billion bbls which is nearly equal to the remaining proved and non-proved reserve base (5.5 billion bbls). However, that future is not yet secure and requires a transformation in the way we do business. The mix of products is changing dramatically; heavy oil and gas resources are of a similar scale to the remaining light oil resource. Technical challenges increase as we are driven to thinner, more complex reservoirs and heavier oils. All the while we bear the burden of the highest cost of supply anywhere in BP's portfolio.

BP's North Slope Operations

Facilities

- 11 Major separation facilities
- 2 Major gas facilities
- 3 Water handling facilities
- 2,000 production/injection wells

Production

- 700,000 BOPD
- 1,500,000 BWPD
- 9 BCF/D gas

Pipeline Network

1,500 miles of pipe lines

Vessels

3,500 regulated vessels

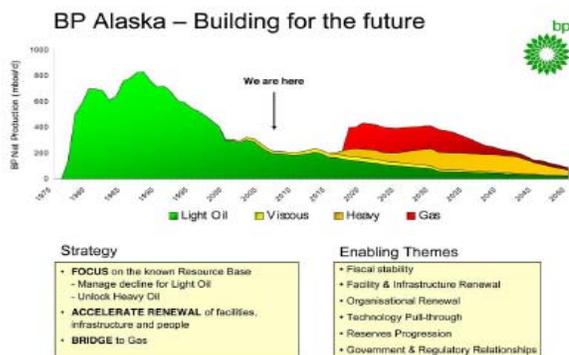
Tanks

- 750 regulated > 10,000 gals
- 700 regulated < 10,000 gals



FACT SHEET • BP IN ALASKA - BUILDING A 50-YEAR FUTURE

BP in Alaska — Building a 50-Year Future



This diagram, the "Green Mountain," highlights the contrast between our heyday of light oil production in the past and our evolution toward a diverse and challenging future. Our success will lie in our ability to retain the best of the Green Mountain while adapting and responding to different needs in the future. The Alaska strategy, articulated below, is the vehicle through which we will deliver that future.

1) Manage Light Oil Decline

BP Alaska produced 236 mbd net oil during 2006. The natural decline from all of our producing fields averages to about 18% per year. This means that by 2009, light oil production would have fallen to half that of today, however, through the application of enhanced recovery technology, well work and infill drilling, we have stemmed the decline of light oil production to 9% (overall decline including viscous oil production is 7%).

2) Unlock Heavy Oil

Waterfloodable viscous oil accounts for about 9% of 2006 production and 570 million bbls of reserves. However, a larger heavy oil prize of 1.3 billion bbls is contained within a non-waterfloodable tranche which requires technologies not yet employed in Alaska. In order to unlock these substantial resources, the Heavy Oil Team is taking ownership of technology challenges through the establishment of a local Heavy Oil Center of Excellence.

3) Accelerate Renewal of Facilities, Infrastructure and People

Renewing the BP Alaska organization is vital to building our 50-year future. Safety & Operations Integrity (S&OI) is the core of our renewal effort to protect the health and safety of our employees and minimize our impact on the environment.

Additionally, evaluating, updating and repairing our facilities and infrastructure will ensure that we efficiently and dependably deliver our production. Finally, as activity ramps up throughout the organization, with the Strategic Workforce Plan (SWP) we will renew our most important asset – our people.



4) Bridge to Gas

BP Alaska's interests in the Prudhoe Bay (26.4%) and Point Thomson (32%) fields total over a quarter of the North Slope's 35 tcf known gas resources. Construction of a pipeline from Alaska's North Slope to the U.S. Midwest to develop this resource would be the largest private sector project ever undertaken, requiring 30% of the high-strength steel world output per year for three years and a projected investment of \$25 billion gross. Four key elements are required to progress this project: U.S. Federal legislation; an efficient regulatory framework in Canada; a clear and durable fiscal contract with the State of Alaska; and finally, capital cost reductions through the application of advanced technology. While the long-term prosperity of our oil business will depend on the development of North Slope gas, it is its health in the near-term that will enable us to forge the bridge to gas.



Prudhoe Bay — How we produce oil

After 30 years of production, Prudhoe Bay remains the largest oil field in North America and ranks among the 20 largest fields ever discovered worldwide. Of the 25 billion barrels of original oil in place, approximately 13 billion barrels can be recovered with current technology. Today the field has produced nearly 11 billion barrels. The current liquids production from the Greater Prudhoe Bay Area, which includes the nearby satellite fields of Midnight Sun, Polaris, Aurora, Orion, and Borealis, totals 430,000 barrels per day. The field also contains an estimated 26 trillion cubic feet of natural gas resource (in place) in an overlying gas cap and in solution with the oil.

Prudhoe Bay produces from the Sadlerochit sandstone formation nearly 9,000 feet underground. The oil-bearing column was 500 feet thick in some areas at the time of the field's discovery.

The Prudhoe Bay field was discovered in 1968 and the field came on-stream June 20, 1977. Production averaged more than 1.5 million barrels of oil and gas liquids per day for more than a decade.

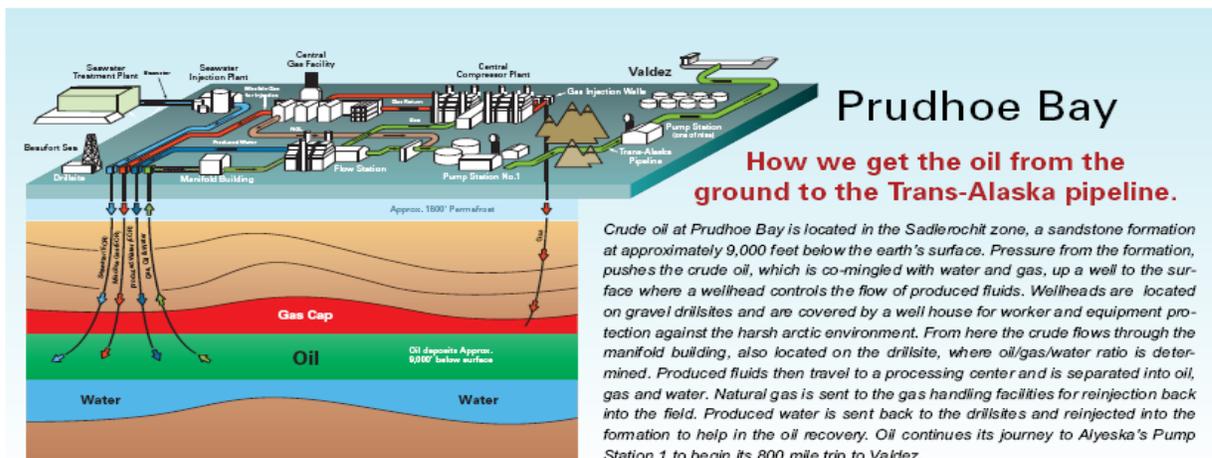
Prudhoe Bay's 30th anniversary milestone and the events of 2006 have placed a new emphasis on the renewal field's infrastructure and workforce. Workforce renewal and hiring Alaskans is a fundamental part of achieving BP's 50-year plan in Alaska. We support educational and technical training programs aimed at preparing Alaskans for jobs.

There has been focus on the installation of the oil transit pipeline system, the installation of pigging and corrosion-inhibitor injection facilities, as well as state-of-the-art leak-detection and metering facilities. This is in addition to work on the affiliated electrical and emergency systems. The result will be a \$250 million upgrade the field's oil transit line system and related infrastructure by yearend 2008. BP will continue to commit the necessary resources to evaluate and renew its infrastructure at Prudhoe Bay.

Prudhoe Bay Satellites

Satellite fields are small accumulations of oil that can often be developed using existing infrastructure. There are five satellite fields currently produced from existing Prudhoe Bay gravel pads and the liquids are processed through the field's facilities. Aurora and Borealis produce from similar formations and were brought on-line in 1998 and 2000 respectively. Midnight Sun produces from a sandstone formation at 8,000 feet below sea level.

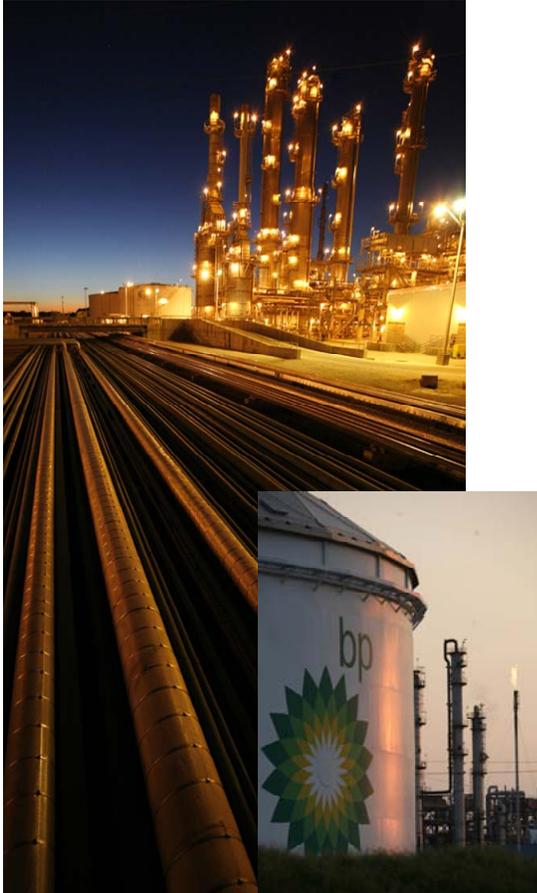
Orion and Polaris satellite fields both produce the difficult viscous oil from the Schrader Bluff formation, at depths of 4,000 to 5,000 feet. By using advanced drilling technologies the fields currently produce about 10,300 barrels per day.



FACT SHEET • PRUDHOE BAY - HOW WE PRODUCE OIL

Exhibit 2

BP Texas City – Perspective and Scope



- Third largest U.S. refinery
- 1200 acres, 2 square miles
- 33 process units
- One of the most complex refineries in the world
- 460,000 barrels per day capacity, equivalent to 7.6 Bn gallons per year
- Three percent of U.S. gasoline supply
- 2,100 company employees
- About 5,000 contractor employees daily
- Major area/county employer and tax-payer
- Highly integrated with BP's adjacent chemical plant
- 70% of crude comes via marine terminal
- 75% of products goes out via three pipelines
- Serves East Coast and Midwest

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Exhibit 3



How does BP Renew in Alaska?

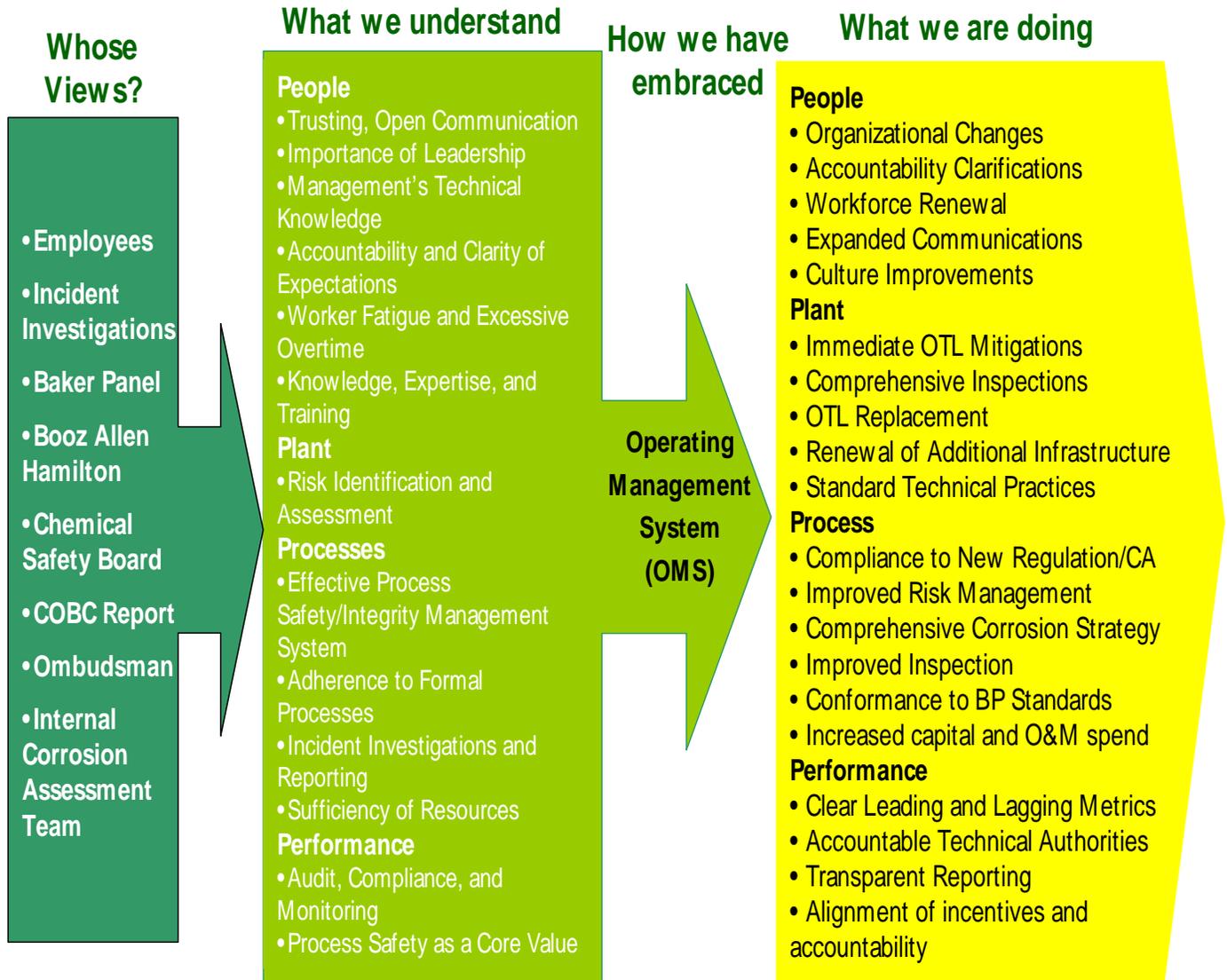


Exhibit 4

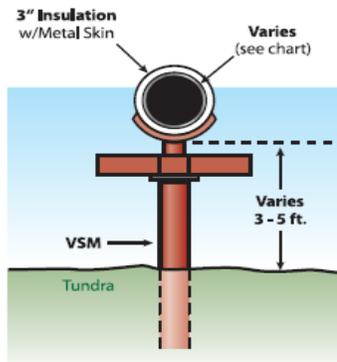


Vertical Support Members (VSMs)

PRUDHOE BAY PIPELINE REPLACEMENT PROJECT

To protect the tundra environment and wildlife, The Prudhoe Bay Pipeline Replacement Project will install Vertical Support Members (VSMs) designed to suspend the pipeline higher above the tundra. The new 7-foot (where possible) clear-

ance protects the permafrost, accommodates wildlife movement, discourages snowdrifts, and supports efficient pipeline surveillance activities. The project also calls for driving the VSMs deeper in the ground to enhance VSM stability.

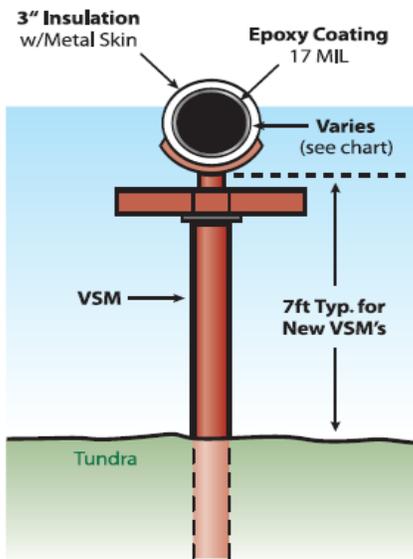


Existing Pipeline Cross Section

The current clearance above the tundra and the depth of the VSM into the tundra

Replacement Pipeline Cross Section

The new 7-foot clearance above the tundra and the depth of the VSM into the tundra



TECH TALK

VSM numbers: The new lines require installation of about 1,200 new VSMs with a typical spacing of 60 feet. The VSMs will have a minimum embedment depth of 18 feet to reduce the likelihood of jacking. New VSMs will be constructed of 12-inch diameter X 65 pipe with a 0.500-inch wall thickness.

Special support: Horizontal Support Members (HSMs) are also used in building pipeline trestles. HSMs have a 10-foot width to accommodate the new pipeline and will have room for an additional line as needed for future expansion. HSMs are at the top of VSMs, about 7 feet above ground.

Vertical Support Member (VSM) schematic

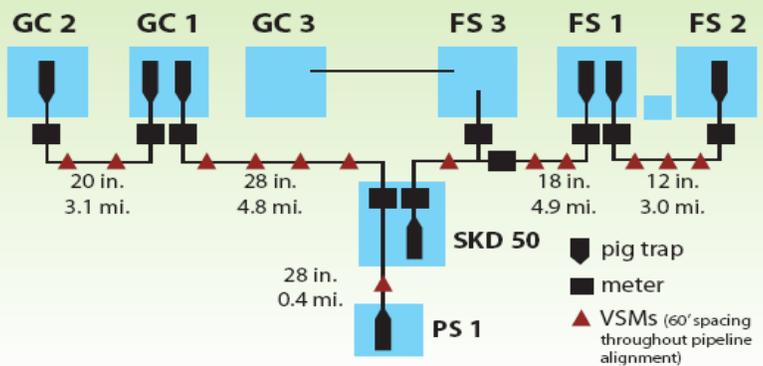


Exhibit 5

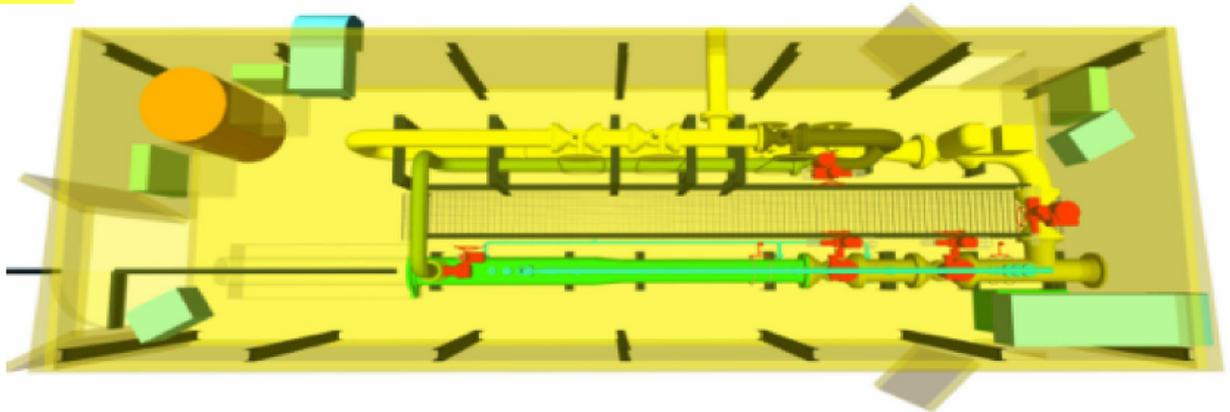


Pigging and chemical injection

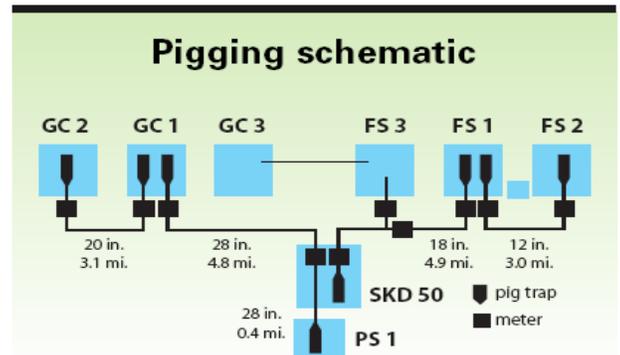
PRUDHOE BAY PIPELINE REPLACEMENT PROJECT

A major focus in the Prudhoe Bay Pipeline Replacement Project is the installation of new equipment to fight internal corrosion in the pipelines. This equipment centers on “maintenance pigs,” capsule-shaped devices that run through the pipeline to clear out sedi-

ment and stagnant water; “smart pigs,” devices that inspect and measure a pipeline’s wall thickness; and equipment that injects corrosion-inhibiting chemicals into the pipeline. The new facilities will also feature a design that allows operators easy access to all equipment.



Above: Production facilities will include new pig “launchers” and “receivers.” A launcher is installed at the pipeline input point and a receiver is installed at the pipeline output point. Working in concert, launchers and receivers send a maintenance pig in a stream of fluid to clean out the pipe or a smart pig to inspect and diagnose internal pipeline corrosion. The new modules allow BP to run maintenance and smart pigs regularly. Maintenance pigs that are run on a regular basis can keep water and sediment from building up.



Left: By cleaning the inside of the pipe, pigs produce a clean surface that can be easily coated with corrosion inhibitor chemicals that provide a protective layer and act as a “bio-cide” for bacteria. These chemicals interface with the pipe body itself. BP is installing equipment that can inject these chemicals directly into the transit lines. This equipment will work hand in hand with corrosion-monitoring techniques.



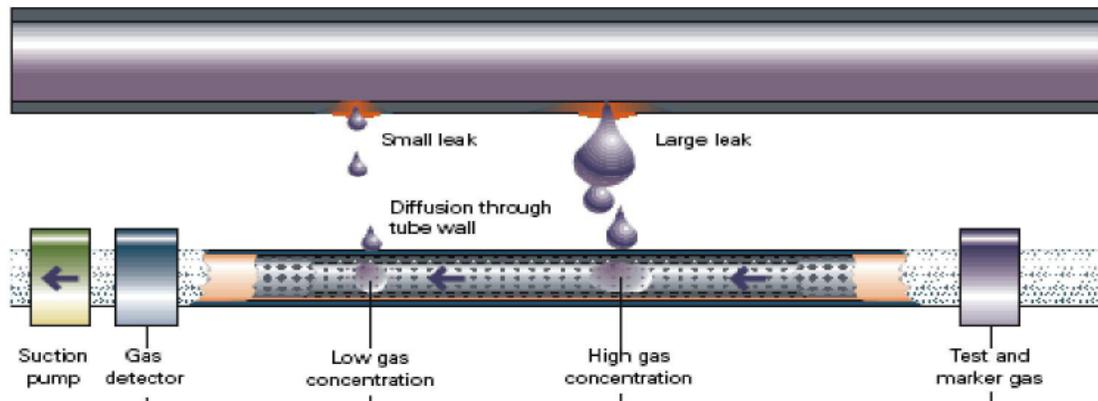
Leak Detection

PRUDHOE BAY PIPELINE REPLACEMENT PROJECT

Complementing pigging and corrosion control is a new leak detection system being installed as part of the Prudhoe Bay Pipeline Replacement Project.

The new system offers enhanced reliability. Leak detection involves measuring the volume of flow in the line. The replacement project features both a primary upgraded system that meets current regulations and a pilot system being tested in above-grade applications that's

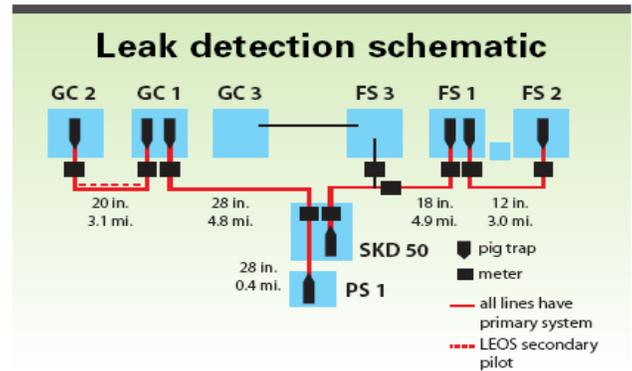
designed for the detection of very small leaks. The primary method uses several types of meters to read the volume of liquid going into and coming out of the pipeline segments. This method detects large, catastrophic leaks. The pilot system (see below) uses a gas chromatograph method that passes an air sample past a hydrocarbon analyzer, which then indicates whether any crude oil has escaped from the pipe. If it has, the system triggers an alarm. This method can detect even very small leaks.



TECH TALK

Super software: The software package for the new leak detection has a proven track record in the energy industry and is one of the most widely tested leak detection systems in the world. The system has been applied to oil, gas, multi-phase, chemicals, water, and multi-product pipelines, both on land and subsea.

A 'sound' system: The new leak detection system will use ultrasonic meters, which detect leaks by measuring the flow in the pipeline. The meters inject a sound wave into the crude oil stream and receive it at the other end as it emerges from the stream. These meters are rugged-able to survive even hurricane force.



Schematic shows primary leak detection system and secondary system (LEOS) that is being piloted between GC 2 and GC 1.