bp

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November 2, 2007 ***via hand delivery***

The Honorable Carl Gatto
Co-Chair, House Resources Committee
State Capitol Rm. 108
Juneau, AK 99801-3100

The Honorable Craig Johnson
Co-Chair, House Resources Committee
State Capitol Rm. 126
Juneau, AK 99801-3100

Re: Response to questions which arose during BP's presentation on HB 2001 / CS 2001

Dear Representatives Gatto and Johnson:

During the course of our testimony to the House Resources Committee on October 31, 2007 several questions were asked where we indicated we would respond with specific and/or detailed answers.

How many wells have been drilled on the North Slope relative to BPs investment in 100 wells in 2006?

The total number of wells in which BP invested was 98. This was rounded to100 wells. This represented 70% of all wells drilled on the North Slope in 2006. (source AOGCC new spuded wells in 2006)

Can you provide a separation of the operating costs in L48 from Alaska?

$10.33/bbl US average cost (operating, transportation and production taxes) – source 2007 Global Upstream Performance Review – John S. Herold Inc.

In reviewing this information to identify L48 distinct from Alaska, we noted that in our preparation of the slide, we erroneously calculated the PPT/bbl using the daily production rate as an absolute production figure. $2.1 billion of production revenue tax generated from 756,000bbl/day gives $7.61/bbl versus the $2.1 billion PPT generated on 756 million barrels which calculated at $2.77/bbl. This correction has added $4.84/bbl to our Alaskan cost raising this from $16/bbl to $21/bbl. A corrected slide is attached.

This particular report does not separate out the L48 and Alaska. We have made requests of both Wood Mackenzie and John S Herold for a more exact split of the costs. Pending more accurate numbers, below we have made a simple estimate using 2006 Alaska crude oil production as a percentage of total U.S. production. We appreciate that this is both simplistic and likely to overstate the average cost of a L48 barrel:

Comparison of operating expense, transportation costs, and production taxes	
U.S. Ave Cost.bbl	$10.33
2006 U.S. Crude Oil Production, thousand barrels	1,862,259
Alaska Average Cost/bbl (2007)	$21.20
2006 Alaska Crude Oil Production, thousand barrels	270,486
Total U.S. cost, $thousand	19,237,135
Total Alaska Cost, $thousand	5,734,303
Total L48 Cost, $thousand	13,502,832
Estimated Average L48 Cost/bbl	$8.48

* Alaska costs based on operating cost $7.75 from August 2007 PPT Status Report, Transport cost of $5.84 and production costs/bbl of $7.61 are from the 2007 Spring Resource Book

How much of the total USA production is from Alaska?

Based on information extracted from the Energy Information Administration website, Alaska represents 14.5% of the 2006 US oil production.

What percentage of the BP employee and contractor workforce is Alaskan?

Of the current BP Alaska Employees, 82% are Alaska residents and of these 71% qualify for the PFD. The difference in the numbers reflects the timing of when individuals have joined BP Alaska.

While we do not have ready access to 100% of our contractor workforce we have, through working with our contractors, obtained the following information.

- Top Six Contractor breakouts:
    - Company 1: 85% PFD Recipients
    - Company 2: 74% PFD Recipients
    - Company 3: 72% PFD Recipients
    - Company 4: 71% PFD Recipients
    - Company 5: 67% PFD Recipients
    - Company 6: 67% PFD Recipients

What deductions would be available for topping plants under the existing PPT ?

A specific request was made of the DoR seeking confirmation that the understanding that this cost was deductible under PPT was correct. The proposed bill introduced by the Administration sets a policy indicating that this will not be eligible for deduction.

In the event credits were available for this particular project then the construction costs would attract the credit to improve the economics such that it becomes a viable project. This is part of the plant operations. There are currently existing topping units but they are not designed for Ultra Low Sulfur Diesel (ULSD).

The costs of running the plant would be part of the operating costs of running the field in the same way the existing plants are. The refined product stream would then be either used to fuel the field in which it was produced and there would not be an additional cost as there would be no 'purchase', or it would be sold to another field. In the case of a 'sale', the revenue would be taxable and the cost in the receiving field would be deductible.

In respect of Royalty, volumes produced and used within the unit for unit operations (e.g. fuel, well treatment, etc) are not subject to royalty. All volumes produced and sold to other units are subject to Royalty. It should be understood that the plants are not designed to produce large amounts of excess volumes. Also, within Unit use takes a priority over sales to other Units or Contractors. This is the current approach and this approach would be maintained.

What deductions are currently available for DR&R?

Currently, North Slope DR&R is addressed as part of the 18 excluded items under Sec. 43.55.165(e). Any investment made in upstream assets prior to April 2006 must be identified. The DR&R incurred on those assets is not subject to deduction under PPT. If there is an asset that was installed after April 2006, the DR&R associated with the removal of that asset is subject to deduction under PPT or is not excluded. There is an exception to the DR&R incurred on pre-April 2006 assets. If the DR&R is undertaken for the purpose of replacing, renovating or improving the asset, the DR&R would be considered a qualified lease expenditure.

What are the calculations behind the indicative level of investment included in Slide 4 to reach a 3% decline rate?

In order to illustrate the benefits to both the state and industry of having more volumes from which to generate revenue, the level of investment would need to increase substantially. Rather than use different numbers we elected to use those which had been presented.

The 15% decline rate is the 'not do very much' scenario. We recognize that some investment would be required to access the 1.3bn barrels and that some level of facilities costs would be required. In moving through the scenarios however, no further upgrading or enhancing of facilities was assumed. In selecting which of the example fields to include in our illustration (attached), we did not include Field G as we do not believe that it is a likely estimate in respect of projects in Alaska in the future – while we would all be delighted to see fields discovered of the magnitude required for this cost/bbl to be achievable.

I hope these responses are clear. We remain available if we can be of any further assistance to the committee.

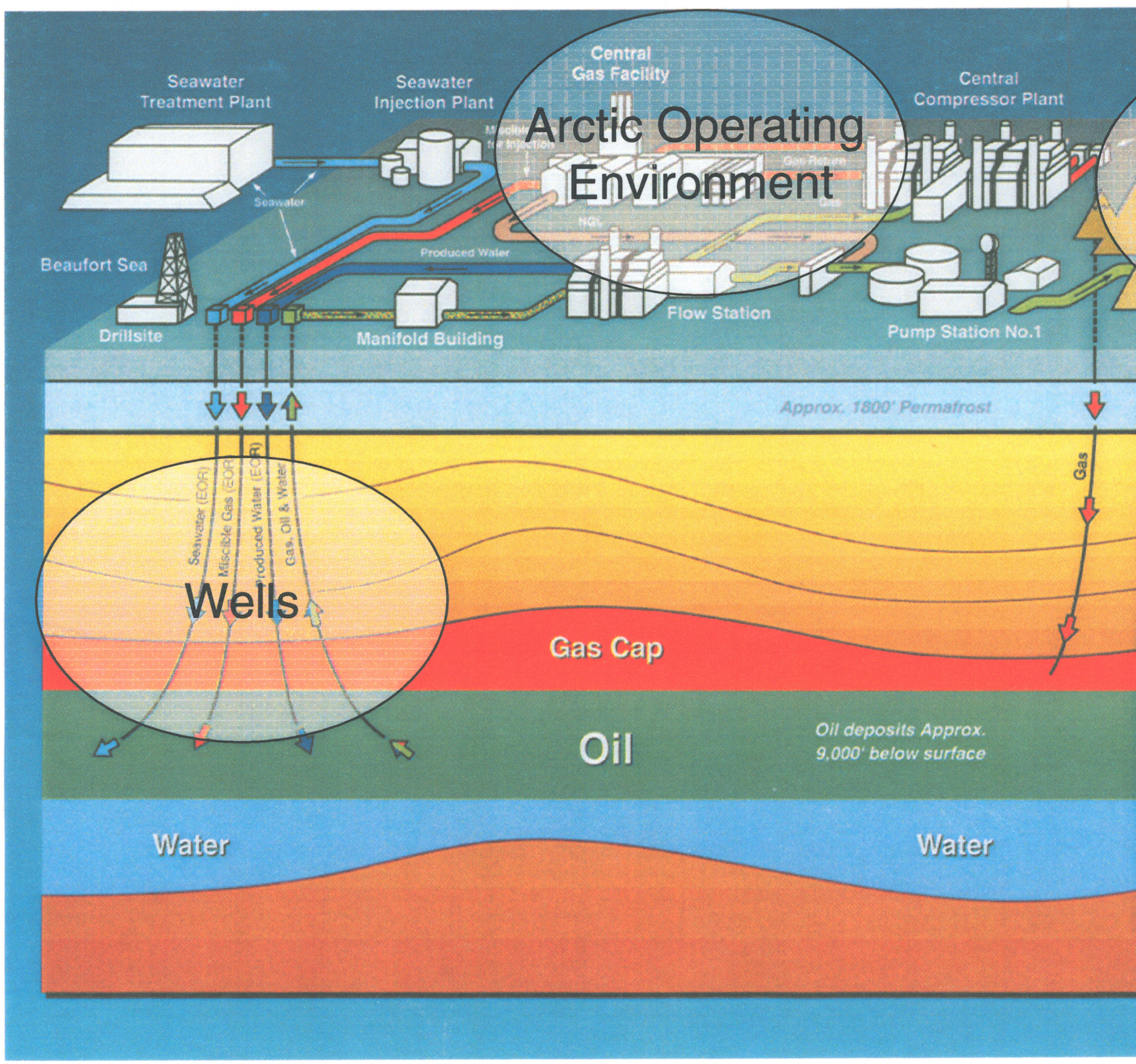
Yours sincerely

Claire Fitzpatrick

Claire Fitzpatrick
Commercial Senior Vice President

Attachments:
Corrected slide showing Alaska vs. Average US Cost Structure
Analysis of Slide 4

Alaska vs. Average U.S. Cost Structure



From exploration through development, operating and transportation, the costs of doing business in a remote Arctic environment are substantially higher than the United States as a whole.

New technologies developed in Prudhoe Bay make continued development feasible, but it is always in the face of a higher cost structure.

	Alaska*	U.S. Avg**
Operating, transportation and production tax costs	$21/bo	$10/bo

* DOR Spring Forecast and August PPT report
**"Global Upstream Performance Review" Published by John S. Herold, Inc and Harrison Lovegrove & Co. (Includes ops costs, trans costs and production taxes)

Analysis of Slide 4

Capital Cost Information Used

PPT Status Report August 3, 2007

Capital Costs / barrel	$6.81

ACES presentation: Senate Resources / House Oil and Gas
Characteristics of Seven Fields : Capital $/bbl

A legacy field with heavy oil	$11
B satelite field	$10
C satelite field	$11
D stand alone field	$13
E satelite heavy oil	$16
F offshore stand alone	$8
G stand alone	$5

Incremental Investment Scenario

Do Little' Scenario - 15% decline

	Billion barrels		$ billion
Assume some investment:	0.3	existing cost of $6.81	2.0
	1	no drilling requirement facilities maintenance	3.0
	1.3	Investment	5.0

Status Quo 6% decline

Incremental investment needed above 'do little'	2	existing cost of $6.81	13.6
	0.6	heavier oil (ave of A & E is $13.5/bbl))	8.1
	2.6		21.7

Reduce Decline to 3%

Further additional investment	2.4	Heavier oil at above ave (to reach BP 3bn estimate)	32.4
	0.6	existing cost	4.1
	0.6	Stand Alone	7.8
	3.6		44.3
Total	7.5		71.0