

**Comments by Steve Marshall
President, BP Exploration (Alaska) Inc.
To the Joint Alaska Senate and House Resources Committee
August 18, 2006**

Chairman Wagoner, Co-Chair Samuels, Co-Chair Ramras, members of the Alaska Senate and House Resources Committees. Thank you for providing me an opportunity to discuss Prudhoe Bay oil field operations. While here, I will focus on four areas:

- Why the decision was made to commence an orderly shutdown of the Prudhoe Bay oil field;
- The aggressive steps we are taking to bring the entire field safely back to full production;
- Our North Slope corrosion program; and,
- The issue of how employees and contractors can raise concerns to us.

Mr. Chairman, I am convinced that the actions taken on August 6th to begin orderly shutdown of Prudhoe Bay were correct and avoided the risk of a major oil spill. After sharing my thoughts, I will do my best to answer your questions and if I don't have answers today, I will make every effort to get them for you.

Let me take a moment to introduce myself. My name is Steve Marshall, I am President of BP Exploration (Alaska) Inc. I have spent half of my 28 year career working in Alaska. I first moved here in 1978 near the time of production start up then spent eight years working on the Slope and here in Anchorage. I returned in 2001 to my current role. With me are Bill Hedges, our Manager of Corrosion Strategy and Planning and Patrick Vieth, a senior vice president of CC Technologies, a company with global operations that specializes in corrosion programs in the pipeline industry. Both gentlemen will provide the committees with information and be available to answer your questions.

There is no doubt that everyone in Alaska wants to see Prudhoe Bay safely back in full production. I can't say enough about the way the State of Alaska, DNR, DEC, DOR, the North Slope Borough, USEPA, the U.S. Department of Transportation, AOGCC and others have assisted and worked with us these past two weeks with insight and oversight. We stayed focused, we worked very hard and we demonstrated to ourselves and the regulators that it is safe to maintain production from the western operating area of the field. It has been a cooperative effort so far and we will achieve the goal of bringing the entire field back on line as soon as practicable.

The decision made on Sunday, August 6th to commence an orderly shutdown of the Prudhoe Bay oil field was based on corrosion reports from recent smart pig inspections of the eastern transit pipeline which were both unexpected and of concern to our corrosion experts. We were in the process of corroborating those results with field ultrasonic inspections when we found stained insulation that led us to shut in Flow Station 2 as a

precaution. After we shut in the flow station, we discovered the leak which then caused us to begin the orderly shut down of the field.

In a processed crude oil transit pipeline which had operated for almost 29 years without a spill, we discovered areas of severe internal corrosion. Given our decades of past operating experience, we did not expect to see the degree of corrosion we found in the eastern transit line. Our engineers and corrosion experts also were concerned that the corrosion program we employed had not indicated the problem sooner.

We are still seeking to understand exactly what caused the pitting of the line, but we won't know for sure until we can conduct laboratory tests. Not knowing exactly what we were up against, the only responsible option was to protect the environment from potential spills by shutting down the field in an orderly fashion

Once the decision to shut down was made, hundreds of skilled men and women spent the next six days removing insulation and running thousands of test inspections of the western transit pipeline. There was not a single safety incident during their response and their findings allowed BP Exploration (Alaska) Inc., with input from state and federal governments and other external experts, to determine that we could maintain some production from Prudhoe Bay while moving forward with plans to bring the rest of the field back on line. The western operating area has now been restored to production of over 200,000 barrels per day. We are continuing our inspection programs and have added additional aerial and ground infra-red monitoring of this side of the field.

The eastern operating area is currently not producing with the exception of Point McIntyre which is producing 18,000 barrels of oil daily. We are continuing to inspect the condition of the eastern transit lines and are looking at ways we might be able to safely bypass trouble areas to get more oil to Pump Station #1. We currently have more than 340 engineers and inspection experts working on the business resumption project. When we have a full understanding of the engineering options available to us, we will add construction crews and be able to provide you with a better prediction of when full production may be achieved.

I won't speculate on when we will be able to safely resume full production from Prudhoe Bay, but I can report that we have some of the best people in the world working the problem from both a short and long term perspective. We have committed to replace 16 miles of transit lines. The pipe has been ordered from U.S. suppliers and will be shipped North in the fourth quarter of this year.

So how did we get to the point where corrosion could impact Prudhoe Bay production? Corrosion is more of a threat in some areas of our operations than in others due to the composition of the liquids in the lines. Corrosion can be caused by a number of conditions or circumstances, including the presence of carbon dioxide, water, solids and microbes as well as the geometry of the lines, whether there are low spots, and fluid velocity. It is only through laboratory testing that we will be able to confirm the corrosion mechanism. This transit line is downstream from facilities that separate crude

oil, natural gas, carbon dioxide and produced water, and the oil it carries is sales quality. With that situation, we did not expect the severe corrosion we found. In a few minutes, I will ask Bill Hedges, our BPXA corrosion expert to provide you with a short course on corrosion.

Every year, we conduct more than 100,000 inspections across the North Slope. We utilize a combination of ultrasonic testing, radiography, pigging and many other tools to maintain an ongoing assessment of corrosion. Every year we run more than 370 maintenance pigs up on the Slope. In addition, we conduct three to five in-line inspections with smart pigs per year. Every year we make repairs to 250-300 sections of pipe. Most of those cases involve small facility piping. In addition to small facility piping, last year BP Exploration (Alaska) Inc. replaced about 5,000 feet of production pipeline that no longer met our operating standards. On any given day, up to 225 corrosion experts are on the Slope examining and addressing corrosion issues.

We can't eliminate the risk of corrosion, but we do manage it in a most professional manner. Given our performance history and our existing programs, we believed we had an effective corrosion management program and as strong as any program in a similar setting anywhere on the globe. Clearly, recent events have shown that there was a gap in that program and we are examining and analyzing it closely. We will utilize smart pigging in the future on the new transit lines. We will reanalyze our entire corrosion management program for North Slope facilities. It is happening already and if more changes are needed, we will make them.

On a related subject, you may have heard lately that BP Exploration (Alaska) Inc. employees, contractors and others have raised concerns about our corrosion and maintenance programs on the North Slope. Where issues are raised doesn't matter, we just want to know what the concern is so that we can review it, do our best to understand it and act on it.

We actively encourage our workforce to raise issues of concern and promote open communication in many forums. Among communications options available to our employees and contractors are:

- A health, safety and environmental hotline for reporting concerns;
- Employee-run safety committees to discuss and resolve safety issues;
- A worldwide intranet program we call "Open Talk" that is in place to anonymously collect comments and concerns for investigation
- An external contact that any employee can call anonymously to report any concern; and,
- The opportunity for employees, contractors and others to contact people or groups totally unconnected with BP to report a concern.

Over the past five years, we have received more than 600 concerns and suggestions from employees and contractors. They cover everything from the intensity of headlights and the age of mattresses to workplace safety and proper disposal procedures. We look into every specific suggestion or concern and take action as appropriate.

BP Exploration (Alaska) Inc. has an excellent workforce on the North Slope. Many of our employees and contractors have been working at Prudhoe Bay since the first oil reached Pump Station #1 more than 11.3 billion barrels ago. To see how these people applied themselves over the past two weeks is testament to their skills, commitment and work ethic.

In closing Mr. Chairman, since March, we identified a gap in our corrosion inspection system and we will correct it. In the future, we will have a better system to protect our pipelines and we have already gained important new operating knowledge. Through adversity, we will enhance our operating capability. That benefits us, the State of Alaska, your constituents and the nation as a whole. I deeply regret the problems caused by the situation we discovered. But we will emerge stronger and more knowledgeable as a result of this challenge.

Thank you very much.

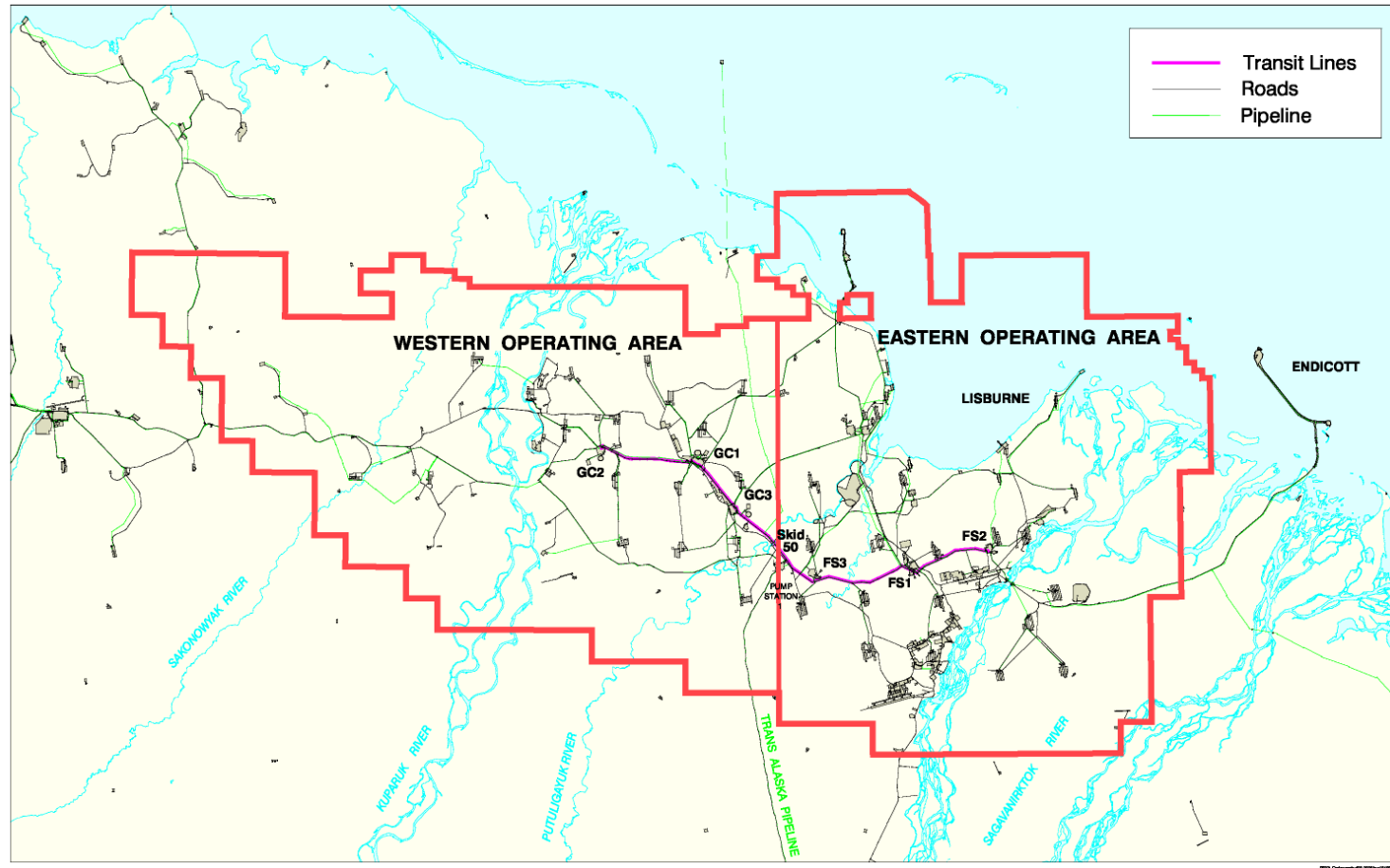
I'd now like to ask Bill Hedges, our Manager of Corrosion, Strategy and Planning to give you a short primer on why corrosion occurs and what we do to manage it. Bill

Prudhoe Bay Unit Map

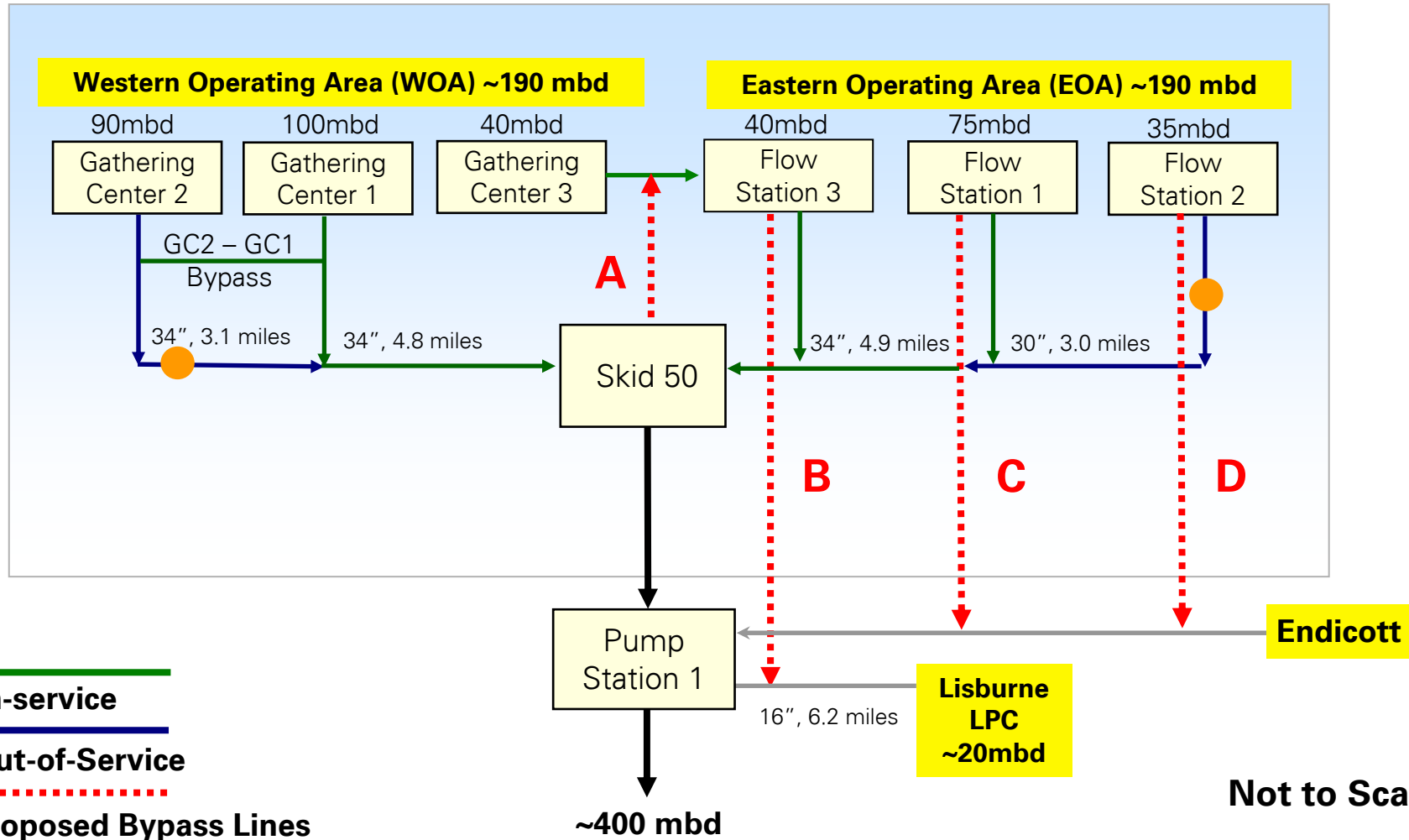


PRUDHOE BAY UNIT

0 2 4 6 Miles



Prudhoe Bay Pipeline Schematic



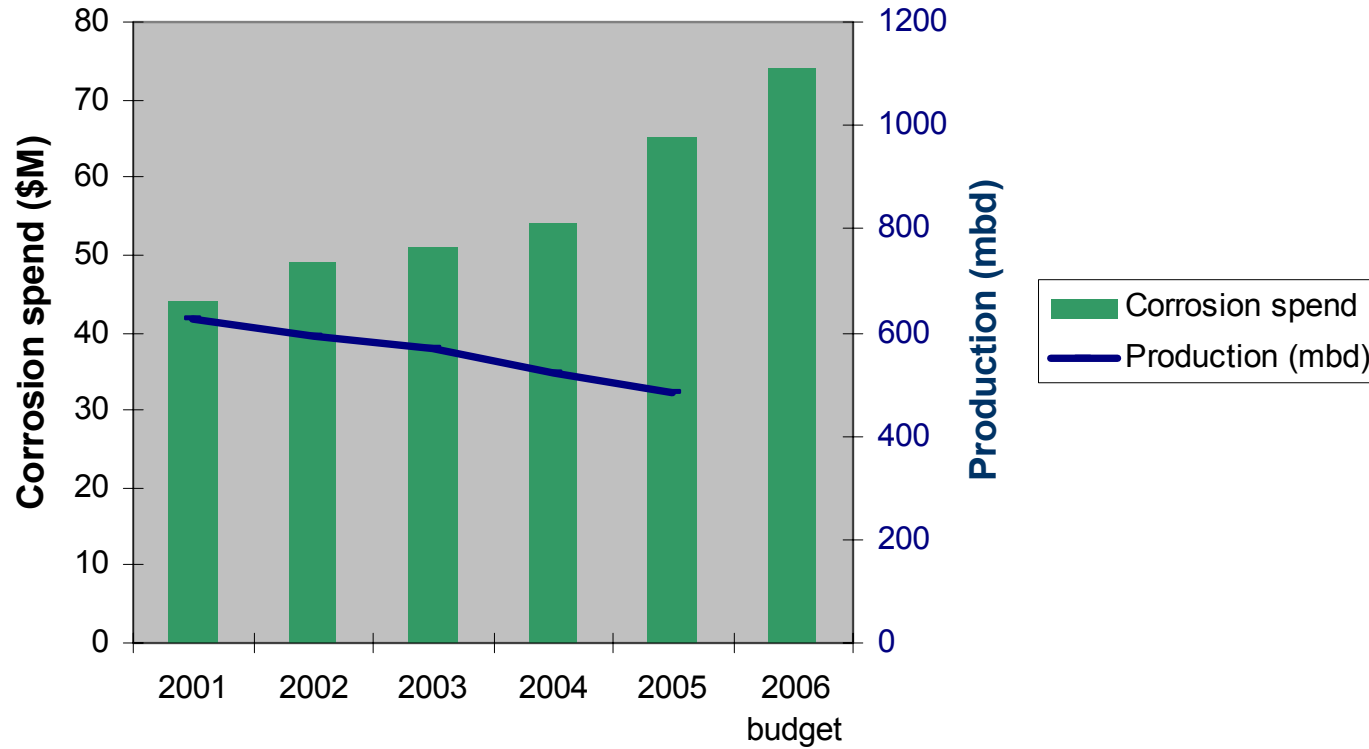
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Prudhoe Bay Maintenance & Corrosion Spend

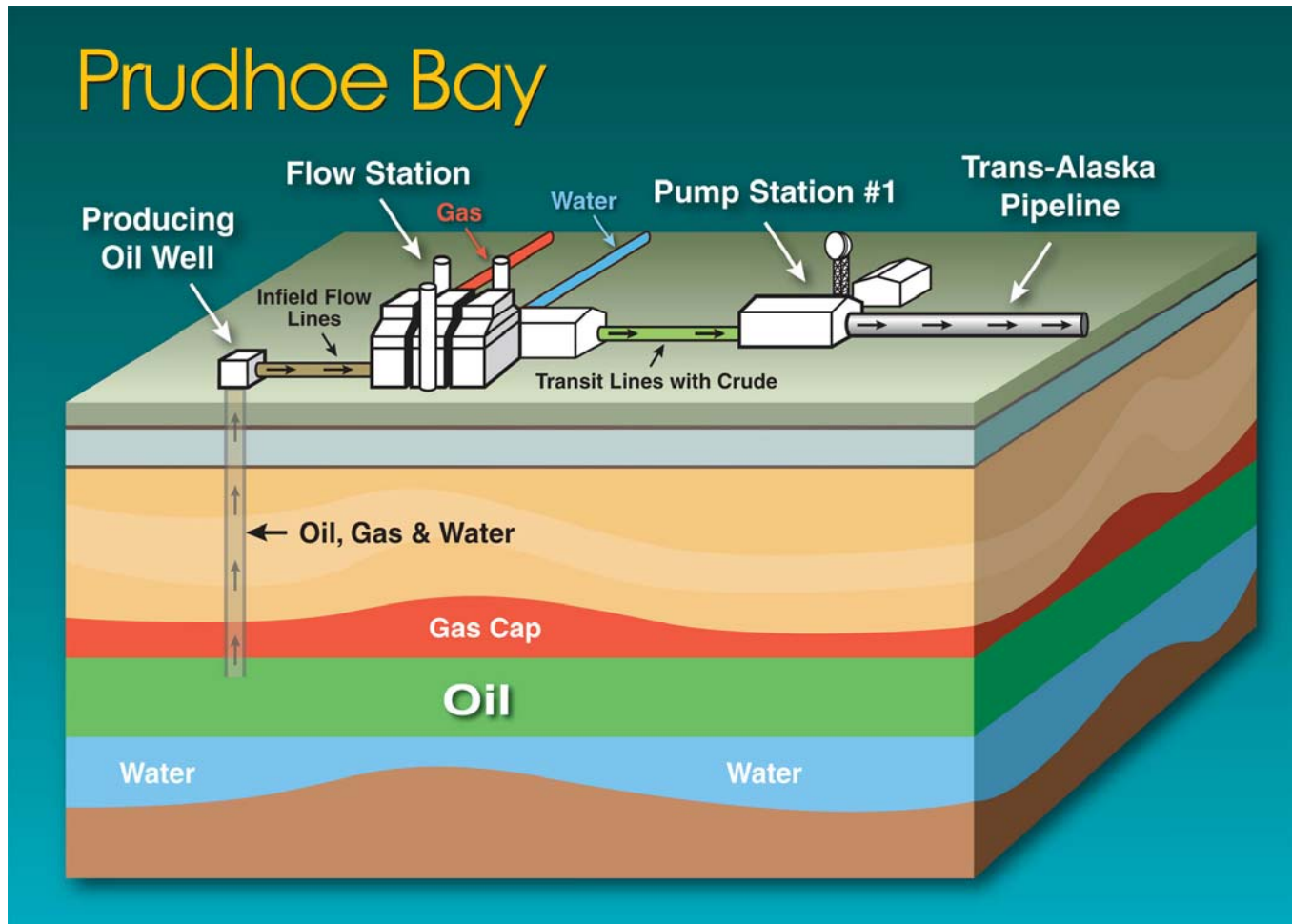



\$M Gross	2001	2002	2003	2004	2005	2006 plan
Maintenance	175	177	180	185	250	300
Corrosion Mgmt	44	49	51	54	65	74

Prudhoe Bay Corrosion Management Spend



Oil Process Flow



A man wearing a white hard hat and glasses is shown in profile, looking at a mobile phone. He is wearing a blue and yellow checkered shirt. The background is a dark grey gradient.

Ways to communicate employee / contractor concerns to BP

- Line Management
- Employee Run Safety Committees
- HSE 1-800 Hotline
- Anonymous call to External Contact
- Open Talk