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05 April, 2016

The Honorable Mark Neuman
Co-Chair House Finance Committee
Alaska State Legislature
State Capitol Room 505
Juneau, AK 99801-1182

The Honorable Steve Thompson
Co-Chair House Finance Committee
Alaska State Legislature
State Capitol Room 511
Juneau, AK 99801-1182

Dear Representatives Newman and Thompson:

During BP's HB 247 testimony before the House Finance Committee on April 1, Rep. David Guttenberg asked two questions. I'm requesting this response from BP be added to the testimony record on HB 247. Thank you for the opportunity to testify during the Alaska Legislative House Finance Committee's review of this bill.

Representative Guttenberg stated: *BP you are the managing partner in Prudhoe Bay and in TAPS. You must have conversations about minimum flow levels that yearly production increases are needed to maintain the facilities and the TAPS line. Do you have any idea what this is, if you can say? And what would the liabilities be if production didn't increase and something happens to a facility or TAPS?*

First, BP is committed to maintaining a safe and compliant business in Alaska that is sustainable. That means the safety of our people and our infrastructure remains the number one priority for BP.

Improving our cost base is critical to maintaining a sustainable business at Prudhoe Bay and the long-term viability of an Alaska LNG project. Over the past two years, there has been a 70% drop in oil price and in 2015 BPXA had a loss of \$194 million with taxes and royalties paid of ~\$263 million.

In today's low oil price environment, Prudhoe Bay's working interest owners must look closely at every investment decision. Please note that while the Prudhoe Bay Unit (PBU) is operated by BP, it is a minority owner at 26 percent with ExxonMobil and ConocoPhillips each owning 36 percent. BP was asked by the working interest owners to reduce the PBU rig fleet from five to two rigs over the next few months. Prudhoe Bay gross production in 2015 was 281,000 barrels of oil per day (BOPD), while in 2014 it produced 289,000 BOPD. This three percent decline is a significant accomplishment for a 40-year-old oilfield. Continued investment in Prudhoe Bay and the recent tax policy by the State of Alaska has been critical to maintaining production.

As we move along Alaska LNG's timeline towards FEED, the PBU oil business that underpins the project's gas supply must remain stable. The oil and gas come from the same reservoir, through the same wells, the same pipelines and same processing facilities. Maintaining economic operations of

the existing PBU facilities reduces risk to the Alaska LNG project. A successful Alaska LNG project depends on a healthy base oil business. First gas is still many years away and we need to enable Alaska LNG with a safe, compliant, sustainable base business for the long term. Increasing taxes will be an additional challenge to those missions, and affects the base business that supports Alaska LNG.

Alyeska Pipeline Company is the operator of TAPS and is responsible for operations, flow rates, and future plans. Your questions regarding TAPS minimum flow and daily operations are best answered by Alyeska Pipeline Company.

Sincerely,

A handwritten signature in black ink, appearing to be 'JR' followed by a long horizontal stroke.

Joe Reese
Senior Managing Tax Counsel, Alaska
BP Exploration (Alaska), Inc.