Testimony of

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"Consolidation in the Energy Industry: Raising Prices at the Pump? Part II"
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Written Testimony
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As requested in the invitation to testify, I would like to comment on consolidation in the petroleum industry and its impact if any on current US retail gasoline prices. Let me first summarize the key points and then I will expand on each one of them.

1. BP's growth has been a response to marketplace realities requiring greater scale and capability.
2. Our recent growth has been weighted towards exploration and production operations where scale is increasingly necessary to compete.
3. BP's current refinery portfolio allows us to effectively compete in the US refining industry.
4. The US consumer today benefits from a highly competitive, diversified and reliable retail gasoline market.
5. US gasoline prices in 2005 were primarily impacted by supply / demand imbalances not BP's growth from consolidation.

BP's growth has been a response to marketplace realities requiring greater scale and capability.

BP is in a business that requires broad capability and scale to participate effectively in an increasingly competitive global market. Today's global economy consumes more energy than ever before, with US requirements making up 25 percent of this growing global demand. Investing, finding and producing new oil and gas to meet that demand requires significant financial resources and the ability to manage the associated risk. At the same time, the increasing demand for refined products requires ongoing investment in more sophisticated refineries that can compete by processing a wider variety of crude oils and still meet today's more stringent environmental requirements. BP has grown in response to these market based realities.

Our growth has enabled BP to supply oil, gas and refined products to US and global markets more efficiently and more effectively. We have been able to spread the benefit of intellectual capability from each organization over a larger integrated asset base. Our growth has allowed us to reduce the overhead costs associated with each barrel produced and with each gallon of product refined. Our greater size, combined experience, and know-how have provided us with the ability to compete for both domestic and foreign sources of oil and gas that we might not otherwise have realized. This increased scale also has allowed us to accept risks and participate in projects that smaller companies are unlikely to have undertaken.

Our recent growth has been weighted towards exploration and production operations where scale is increasingly necessary to compete.

BP's growth since the late '90s has resulted in a company weighted towards finding and producing oil and gas. Since consolidation in the late '90s, most of BP's revenues and profits have been derived from our oil and gas business. During that same period, the major part of BP's total capital expenditures has been invested in the oil and gas business, resulting in five consecutive years of 100 percent or more reserves replacement. The oil and gas projects in which BP is investing and from which we expect future supplies of energy to be produced include significant investment to supply the US markets. Among these are Alaska natural gas, Gulf of Mexico deep water oil and gas, Rockies natural gas, and Trinidad gas that can be converted to liquefied natural gas.

Finding and producing oil and gas today requires greater scale to meet the challenges posed by greater technical, logistical, financial and permitting hurdles. For example, BP is currently working with others to invest in a pipeline to bring Alaska natural gas to consumers in the US Midwest. This project is expected to require investment of more than $20 billion and span 10 or more years before revenues are realized. Participation in a project of this scale requires very large resources, and a smaller BP would have found it difficult to participate.

Investment to find new oil and gas reserves in the deep water Gulf of Mexico is another example of a set of projects that would have challenged and may well have overwhelmed a smaller company. These projects are extreme in every way - extremely large, extremely deep and extremely costly - and presented unprecedented technical challenges. The longer term risks are equally extreme, as demonstrated by the potential for hurricane damage and loss of production similar to what we experienced in 2005. However, our scale enables us to tap the breadth of resources necessary to remain committed to our investment strategy and to respond to such emergencies.

While BP's current scale and breadth of capability is necessary to compete effectively for new opportunities for finding and producing oil and gas, we remain a small player in this global business. Foreign national oil companies control more than 55 percent of global oil and gas production and more than 90 percent of the world's oil and gas reserves. By comparison, for 2005 BP represented roughly three percent of global oil and gas production, and less than one percent of global oil and gas reserves. Large global companies play an important role in competing for supplies to meet US demand which needs to be a factor in analyzing the impact of industry consolidation.

BP's current refinery portfolio allows us to effectively compete in the US refining industry.

The US refining industry today is more efficient and productive than the US refining industry of the past. Regulatory and market conditions led to a reduction in the number of US refineries during the past 20 years. Today, these refineries, through improved efficiency and investment, produce 80 billion gallons a year more product than US refineries did 20 years ago.

Additionally, today's refiners must do more than refiners of the past. In response to regulatory requirements, refiners must make a greater variety of more costly and complex fuels. BP has invested in larger and more sophisticated refineries in order to meet these requirements.

BP operates five US refineries in Toledo (OH), Whiting (IN), Texas City (TX), Carson (CA) and Cherry Point (WA). These refineries represent less than nine percent of US refining capacity. Since the late '90s, BP has reduced its share of US refining by selling four US refineries. All of these refineries continue to operate today.

During the past five years, BP has invested roughly $700 million per year in new capital focused primarily upon meeting environmental regulations, fuel specification requirements and maintaining reliability and efficiency. Last year, BP announced a two billion dollar option to bring Canadian heavy crude oil to our Northern US refineries in order to obtain access to secure North American crude oil.

While attention is focused on the refining margins of the past 12 months, a long term investment perspective must consider margins of the past and determine the risk for the future. Significant regulatory investment requirements and competition from imported product has kept the US refining business competitive and challenging.

The US consumer today benefits from a highly competitive, diversified and reliable retail gasoline market.

In the last 10 years, we have seen increased competition from hypermarkets, convenience store chains and large independent jobbers. Since the late '90s, BP branded share of the retail market has been reduced to roughly 12 percent, while the hypermarket segment has quadrupled during this same time to nearly 11 percent. Today, over 90 percent of BP's branded retail outlets are operated by independent business men and women. BP also supplies unbranded gasoline to independent retailers in many of our markets. At the same time, supplies to these markets have been reliable and able to respond quickly to natural disasters and operating disruptions, with minimal supply outages. All of these factors contribute to a highly competitive retail market.

US gasoline prices in 2005 were primarily impacted by supply / demand imbalances not BP's growth from consolidation.

The price of gasoline in the US is primarily a function of demand for crude oil and products relative to available supply, which is affected by both the domestic and global markets. During the past year, we have experienced very tight supply / demand balances in global crude oil markets resulting in high crude oil prices. This tightness reflects strong economic growth and increased demand throughout the world. In 2005, the refined product supply / demand balance was also affected by a series of natural disasters.

These disruptions caused sharp price increases in both US and world product markets. As a consequence, markets with disrupted supply sources attracted supply from less affected markets both domestically and globally. Consumers were unhappy about higher prices but for the most part were able to obtain the fuel they required. The higher prices attracted volume from other markets, and the negative impact of the disruptions on our nation's supply situation was significantly reduced by the efficient action of market forces.

These market factors would have been present whether the companies of the 90's had consolidated or not. However, it is likely that the increased capability and scale of today's companies contributed to a more efficient restoration of supply than we would have seen five to 10 years ago.

BP's primary role going forward is to continue to provide supply. BP will continue to invest nearly $15 billion per year to find and produce new sources of energy for our customers. We have already announced US investments of:
- Onshore / Rockies - 10 year $15 billion investment program for onshore development including over $2 billion for new development and infill drilling in the Rockies;
- Two proposed LNG terminals at a cost of $1.2 billion;
- A $2 billion option to upgrade our refineries and increase the use of secure Canadian heavy crude oil;
- $1.5 billion yearly spend in our Alaska business to maintain and improve production;
- Our share of the $20 billion Alaskan Natural Gas pipeline investment; and
- Continued investment of over $15 billion over 10 years in the Gulf of Mexico to find and develop oil and gas fields.

For the longer term, BP is making a commitment to develop low carbon power to targeted global markets in four areas: solar, wind, hydrogen power and gas-fired power. We expect to spend $8 billion globally in this business over the next 10 years.

Conclusion

In closing, 2005 reflects both the unusual challenges and opportunities of the global markets for oil and gas. In 2005, BP benefited from participating in these markets but has also experienced less attractive outcomes in many previous years. This is a business that must have the economic capacity to operate on committed long term investment cycles, yet manage through volatile long term revenue cycles. Creating the capacity to take these risks and supply the nation's energy needs are important outcomes of the consolidation over the past five years.

BP has a long history of business activity and significant investment in the US. We will continue to offer quality products, enhanced energy options and invest in support of our customers and the energy needs of the nation.

Thank you