Statement of Lamar McKay
Chairman and President, BP America, Inc.
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Energy and Environment Subcommittee
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Chairman Markey, Ranking Member Upton, members of the committee, my name is Lamar McKay, and I am the Chairman and President of BP America.

Before addressing the main topic of today's hearing, I would like to reiterate the profound sorrow and deep regret that all of us at BP feel for the loss of life and the oil spill resulting from the explosion and fire aboard the Transocean Deepwater Horizon rig on April 20.

This is very personal, both to me and to BP. I am from Mississippi, and spent summers on the Gulf Coast growing up. I have many relatives and friends in the area. The Gulf Coast states have hosted BP and its heritage companies for decades. Thousands of our employees, contractors and their families call the Gulf Coast states home.

I would like to make one thing very clear: BP will not rest until the well is under control and we discover what happened and why, in order to ensure that it never happens again. As a responsible party under the Oil Pollution Act of 1990, we will carry out our responsibilities to mitigate the environmental and economic impact of this incident**.**

Policy remains critical to the provision of abundant, secure and sustainable energy

While it is difficult to divert from the here-and-now, we cannot lose sight of the future shape of energy and climate policy.

The Gulf of Mexico provides one quarter of US domestic oil production. It is one of the world's most significant energy-producing basins and is a resource that America and the world simply cannot do without.

Companies operating in the Gulf have operated safely and reliably. But, the failure of processes, systems and/or equipment must be and can be addressed to restore America's confidence in the industry's ability to continue providing the resources consumers need.

America's economy, security and standard of living today significantly depend upon domestic oil and gas production. Reducing our energy production, absent a concurrent reduction in consumption, would shift additional jobs and dollars off-shore and place millions of additional barrels per day into tanker ships that must traverse the world's oceans.

At the same time, the challenge of creating a lower-carbon economy is still very much before us. Policy decisions that are taken can either progress or impede the move toward cleaner, more abundant domestic fuels such as natural gas. BP is proud of the role we have played in encouraging the move toward a lower-carbon energy future. We need to make increased use of abundant, domestic sources of cleaner-burning natural gas, as well as alternatives such as wind and biofuels.

BP estimates that world energy demand will soar 45 percent over the next 20 years. That's the equivalent of adding today's United States more than twice over. The International Energy Agency estimates that around $1 trillion per year will need to be invested every single year during that time if we are going to have a chance of meeting that level of demand.

And while alternative fuels hold great promise, we must be realistic about what we can expect from them in the near-term. They start from an extremely low base. Scaling them up to the point where they can begin making a significant contribution to world energy demand is a project that will span decades.

We also believe that the potential benefits of increased energy efficiency have yet to be fully explored. Additionally, technologies such as carbon capture and storage might become commercially feasible within a decade.

The energy portfolio of the future will include all of these sources and technologies. But it will also very much include fossil fuels such as coal and petroleum. These fuel sources are so important in the power, industry and transport sectors that reducing our dependence on them can be nothing other than a long-term project.

And BP still firmly believes that the best way to move this process along and tackle man-made climate change is by putting a price on carbon. A price reflecting tightening constraints on carbon would both drive energy conservation and make lower carbon energy choices more cost competitive.

This is the basic energy policy challenge the world faces today.

We at BP intend on playing our part ─ by working with vehicle manufacturers on advanced engine technology, by providing better and cleaner transport fuels, investing in alternative energy resources and by bringing to market newly-abundant reserves of American natural gas.

With the right policy framework, we can bring to bear the optimal combination of resources, investment and ingenuity to meet this energy challenge. And crafting a policy to unleash that combination is the most useful contribution America can make to a sustainable energy future.

Legislative initiatives

BP supports a comprehensive climate and energy policy that includes development of all forms of energy (oil, natural gas, coal, nuclear, biofuels, wind, solar, etc.) and encourages efficiency and conservation.

BP supports an economy-wide price for carbon based on fair and equitable application across all sectors and believes that market based solutions, like a Cap and Trade or linked-fee, are the best solutions to manage GHG emissions. These market-based approaches should be applied nationally for maximum environmental effectiveness at reducing emissions across the US economy, treat all energy consumers equitably, and facilitate investment in sustaining and creating jobs.

As a member of US Climate Action Partnership (CAP), we helped draft a blueprint for climate change legislation that recommended, among other things, how cap and trade could work — with equitable treatment between all sources of carbon as a basis.

If all sources of carbon are not treated equitably, misallocation of capital and insulated consumption is likely to occur. Our bottom-line is a ton of carbon is a ton of carbon — whether it comes out of a tailpipe or a smokestack, it should be treated the same.

The American Power Act (APA) introduced in the Senate on May 12 by Sens. John Kerry and Joseph Lieberman appears to go some ways toward integrating US energy development needs while starting the country down the path toward reducing GHG emissions.

The APA appears to recognize the need to maintain manufacturing competitiveness while establishing a roadmap to move to a lower carbon economy. We continue to analyze the bill's provisions to determine how it impacts BP's operations. But we remain committed to working with the senators to improve the bill's provisions and to work for passage of a comprehensive energy and climate package.

BP America

BP has a long history in the US energy market. I represent the 23,000 US employees of BP America. We are not only one of the largest oil and gas producers in the United States, but also the company that invests in the most diverse energy portfolio in the industry. In the last five years, we have invested approximately $35 billion in the US to increase existing energy sources, extend energy supplies and develop new, low-carbon technologies.

Oil & Gas: Offshore and onshore, BP is one of the largest producers of oil and gas in the United States. From the Alaskan North Slope to the deep waters of the Gulf of Mexico, we are a leader in providing America's traditional energy needs. Our recent discovery of the Tiber oil field in the Gulf is only the latest in a long list of BP investments in America's energy security.

Wind: We are major investors in wind generation and have amassed a land portfolio capable of potentially supporting 20,000 megawatts (MW) of wind generation, one of the largest positions in the country. Currently, we have 1,200 MW of wind generation on-line and expect to have an installed capacity of 2,000 MW of wind power by the end of 2010.

Biofuels: We are one of the largest blenders and marketers of biofuels in the nation. BP has committed more than $1.5 billion to biofuels research, development and production in response to increasing energy demand and the need to reduce overall greenhouse gas emissions from transport fuels. Our cutting-edge research looks to use dedicated energy crops that will contain more energy and have less impact on the environment than past generations of biofuels. They will also be more compatible with existing engines and transport infrastructure, making them less costly to deploy at scale.

Carbon Management/Carbon Capture and Storage (CCS): BP is involved in three major CCS projects: active operations in Algeria; a potential hydrogen energy project in California, and a planned project in Abu Dhabi.

Solar: BP's solar business has been in operation for over 35 years and last year had sales of 203 MW globally. This represents an increase of 25% over 2008 and further growth is expected.

By investing heavily in the most diverse portfolio of energy sources in the industry, BP is helping meet America's energy needs while ensuring a more sustainable and secure energy future.

The Potential of Natural Gas

Natural gas has played a supporting role in America's energy story. However, we believe it is time for its role to change.

If the necessary technology is applied, within a stable fiscal and regulatory framework, natural gas can help fundamentally transform America's energy outlook and emissions profile in the decades going forward.

Its advantages are many:

- Natural gas is far and away the cleanest burning fossil fuel in the energy portfolio. It generates less than 50 percent of the CO2 as coal per kilowatt

hour and emits significantly less sulfur dioxide, nitrogen oxide, and particulate matter. Unlike coal, natural gas does not emit mercury and generates no waste ash.

- It is also the most versatile fuel, because it can be employed in the power and industrial sectors, for home heating and for transportation.
- Natural gas pipeline infrastructure is already in place with more being built. There is also significant underutilized gas-fired power generating capacity.
- Natural gas generators are also more easily switched on and off, providing a synergistic compliment to intermittent sources such as solar and wind.
- Finally, natural gas-fired plants can be more easily expanded and permitted than other sources.

Policies promoting the use of natural gas in power generation hold the potential to create new American jobs throughout the natural gas value chain (exploration, production, pipelines and gas plants). We believe such policies can also help to address concerns around natural gas supply and volatility.

Supply

Over the last few years, a revolution has taken place in America's natural gas fields. Deposits of shale gas once thought out of reach are now accessible, due to new uses of proven technologies, such as hydraulic fracturing and horizontal drilling.

These technologies have doubled production in three of BP's key fields between 2006 and 2008. Additionally, these successes have led to major new discoveries, not only in traditional oil and gas states, but also in non-traditional States such as Pennsylvania, Ohio and New York.

The US had the world's strongest growth in natural gas production in 2009 (+3.5%) for the 3rd year in a row, largely due to growth of unconventional gas supply, especially shale gas. In fact, the US surpassed Russia as the world's largest natural gas producer in 2009. We can do more of this, if the right policy framework is put in place to encourage and enable the use of natural gas.

Estimates vary, but the US probably now has between 50 and 100 years worth of recoverable natural gas which is accessible with technology available today.

Options for integrating energy and climate policy

The US has already taken some significant steps toward lowering carbon emissions. In the arena of transportation, the federal government has mandated more fuel efficient vehicles and increasing use of biofuels.

According to the EPA, electricity generation is the largest single source of CO2 emissions, accounting for 41 percent of all such emissions. Therefore, this is an area where we should dedicate some real focus.

The numbers are well known. Coal provides around half of America's electricity, but contributes over 80 percent of the CO2 produced via electricity generation.

Virtually all projections show coal playing an indispensable role in the US energy picture for decades to come — and we agree. Coal, as well as natural gas plants, can be fitted with carbon capture and storage (CCS) technology. This involves capturing CO2 and reverse-engineering and building a gas injection field so that we can put CO2 back into the ground.

CCS faces challenges of implementation at scale, substantial costs and specific locational issues. It will take time, perhaps a decade or more, for the technology to mature.

Nuclear power is carbon-free and should be part of the solution. However, it is also capital intensive and has long lead times.

Wind and solar are the sources most often mentioned as alternatives to existing fuels, and BP is an industry leader in both. Wind can be economically competitive with more conventional sources, which is one reason it is growing so rapidly — but it still requires subsidies in today's environment. Solar is higher cost than wind and requires a greater government subsidy, though costs are coming down.

Both sources, however, face challenges and have limitations of intermittence and affordability. The development of smart-grid technology might alleviate some of these challenges, but we're not there yet.

So where does this lead us?

The role of natural gas in mitigating climate change

We support greater efforts toward energy efficiency and transitional incentives to encourage the rapid growth of alternatives.

We also think it is important to establish an economy-wide carbon price, with all hydrocarbon sources treated the same. In that framework, increased reserves of natural gas mean we can rely on it more fully to support demand growth in electric power generation.

For example, our analysis indicates that if the least efficient coal-fired plants are provided with transitional incentives to retire, the power sector could deliver a significant amount of near-to-medium term emission reductions at low costs. The

recently introduced American Power Act contains such an early retirement mechanism.

While, we are not suggesting that gas be mandated as a replacement for the retired capacity. It could also be replaced by cleaner, more efficient energy sources. However, with a level playing field for carbon, we believe the market will choose gas, because it offers the lowest-cost option to replace retired coal capacity.

BP believes these important actions will result in a significant down payment on carbon emission reductions, with minimal costs to generators and consumers while CCS and alternative energy technologies mature.

Conclusion

In summary, BP is committed to providing the United States with the energy it needs to grow in coming decades, and doing so in a responsible and sustainable manner.

We support policies which:

- Support development of all energy resources (oil, gas, nuclear, alternatives)
- encourage energy efficiency;
- provide transitional support to renewable technologies; and
- apply a consistent, economy-wide carbon price to all hydrocarbons.

BP is eager to join with policy makers, members of the energy sector, and other stakeholders in order to develop responsible policies that reduce carbon emissions and promote the use of clean, domestic sources of energy. Such efforts must not exclude or sideline any stakeholder.

BP is in the midst of a crisis right now. We know we will be judged on our response to it.

But we cannot lose sight of the future. America is at a critical juncture. If we begin to move now, we can enable a cleaner energy future for the nation. I don't believe we can afford to wait.