

Overview of the Budget Process and 2010 Outcomes

Understandably, dramatic changes in oil prices and economic uncertainty in late 2008 and continuing into 2009 led some in our workforce to worry that BPXA might reduce integrity investment. This perception was likely heightened by BPXA's challenge to its contractors in early 2009 to deliver cost efficiencies as well as the way the budget challenge process was articulated to staff by some BPXA leaders. In 3Q 2009, the Office of the Ombudsman received two letters containing a concern from an anonymous group of employees principally regarding the potential for 2010 budget cuts and a perceived lack of line operations input to the budget. After discussing these communications with the Office of the Ombudsman to better understand their context and to obtain the Ombudsman's advice, we took two significant steps. First, we communicated with the workforce, through townhalls and emails in Anchorage and on the North Slope, our commitment to safety as the top priority, continuous risk reduction and bottoms-up planning. Our commitment is to activities that reduce risk – we target efficiency improvements to complete these activities at lower cost. Our communication was clear that BPXA is not bound by top down budgets – but we do target and challenge to drive efficiency and sustain our business. Secondly, we adapted our 2010 budget planning process to be clearer regarding BPXA's commitment to bottom-up inputs, transparency, and incorporation of risk assessment in the budget process and transparency. Although we've solicited input from the line in prior year budgeting cycles, in 2009, while planning for the 2010 budget, we formalized the process and extended it deeper into the line. This process – including our risk assessments of the activities deferred from 2010 to later years -- gives us confidence that the 2010 budget does not negatively affect the safety of our workers or of the environment.

At BPXA we have a rigorous annual budgeting process based on a BP Group framework for long-term planning and budgeting. Additionally, in 2009, we developed a Safety & Operations Plan to identify and prioritize our safety and operations goals. The plan was taken into consideration as a frame in development of the budget. In connection with the development of the 2010 budget, and in part as a response to the employee concern outlined above, we modified this process to integrate input from all levels of the organization. The budget was not finalized until the front line and field leadership provided direct input on the activities it covers and we gained assurance that the activities in the budget (as well as those deferred from 2010) were assessed against the following safety, environmental and business factors:

- compliance with legal and regulatory requirements
- conformance with other expectations, including internal BP requirements
- stabilization of the base business
- efficiency and competitiveness of the business
- strategic business projects that leverage BPXA's future

The outcome of this process resulted in the addition of activities totaling approximately \$50 million to the 2010 budget. The specific ways in which we incorporated the views of field operations into this process are detailed below.

We also assessed the activity plan to confirm that we did not embrace unnecessary risk by taking on more activity than we can safely execute. Once finalized, the corresponding activity plan was reviewed, in the spirit of continuous improvement, for further opportunities to reduce supply chain costs, consistent with our safety and integrity imperatives. Over the last three years, BPXA significantly increased operating spend for safety and operational activity while maintaining capital investment. In 2010, our overall planned spend will match that of 2009 (an estimated \$2.2 billion, BP net).

Line Input to Budget Process

As described above, we developed the 2010 budget with substantial input from line operations regarding which activities they believed were important to undertake in 2010. The sequence of events that made up this budgeting process is as follows:

1. **Creation of “Bottom Up” Activity Lists.** In mid-2009, workers in the field were asked to provide inputs to their line management to build a proposed list of activities for potential inclusion in the budget. Line workers provided these suggestions from the ground-up, based on facility and project needs they identified in the course of their daily work; discussions with their teams; and issues arising from their facility risk registers (which we have described in our response to your requests regarding risk assessment). We solicited additional input from the reservoir, resource management, and capital projects teams. Inputs were then incorporated into an initial “straw-man” list of activities for further analysis.
2. **Prioritization of the Activity Lists.** Line management then ranked the activities in this “straw-man” activity list according to risk, taking into account information provided by the field in building the list. Each line item of the activity list was classified according to the five objectives described in the introduction (compliance; conformance; base business; efficiency and competitiveness; and strategic projects). For each objective, a subject matter expert provided assurance that each line item was risk-assessed and properly prioritized.
3. **Development of the Financial Framework.** Concurrent with the development of the operational activity lists, BPXA leadership established the business and financial framework. This framework was derivative of the BP Group-wide plans for 2010 and based on requirements for delivering safe and reliable operations while maintaining a viable business.
4. **Alignment of the Activity Lists with the Financial Framework.** The next stage of the budgeting process was a reconciliation of the risk-ranked activity plan with the business framework. Senior leadership then reviewed the product of that reconciliation from a BPXA-wide perspective.
5. **Testing of the Aligned Activity Lists with the Field.** We then tested the aligned activity/budget plan with line workers at each facility in a face-to-face review. This review identified outstanding concerns regarding budget and pace and linked the local facility risk registers and operating and safety plans to the budgeted activities. Line items that the front line deemed “missing” during this review were forwarded both to the Technical and HSE Directorate (THD) and to business leadership for further review and consideration. It should be noted that Billie Garde, the BP Deputy Ombudsman, participated in the field-level review process at Gathering Center 2 and provided input for further improving line engagement.
6. **THD Assurance of the Activity Lists.** THD then conducted an independent review of the prioritized activities to provide assurance that the proposed budget met compliance obligations and that the risk evaluation was sound. The THD confirmed that the prioritization of the aligned activity budget plan is appropriate and reviews with field leadership all significant activities that are deferred or replaced in the proposed budget. Results from this process allowed for adjustments to the proposed budget funding levels and resulted in increases to the budget above the original financial framework.
7. **Final Approval and Communication to Workforce.** The budget was then reviewed and approved by the Alaska Leadership Team and the Group Technical Vice President and shared with the workforce.

2010 Budget

The 2010 budget reflects an expectation of increased cost savings resulting from our finding efficiencies in the marketplace and continuous improvement in activity planning and execution, while, at the same time, continuing to address integrity and improved reliability on a risk-prioritized basis. The 2010 budget reflects higher spend for capital expenditures, higher spend for major repairs, and lower spend for base operations and maintenance. The increases in spend for capital expenditures are driven by the Liberty project development and a ramp-up in spend for the Flow Station 2 and Gathering Center 1 automated fire and gas upgrade projects. Major repair spend for 2009 in GPB was the highest in history, and the budget for 2010 maintains that level of activity. While the spend for base operations and maintenance in 2010 will decline from 2009 in absolute terms, it is important to note that the 2009 Base Operations and Maintenance spend was the highest in GPB history in actual dollars spent. Clearly, spend over the past three years and planned spend for 2010 reflects our ongoing commitment to invest in the integrity of our facilities and pipelines while delivering safe operations and reliable production.

In your January 14 letter, you asked us to specify any deferred projects, capital expenditures, or personnel plans “that have the potential to impact safe operations.” A list of examples of activities added after line input, as well as a list of examples of deferred activities follows. As noted above, based on our risk assessments, we do not believe that these deferred activities have the potential to impact safe operations, but we have taken steps to mitigate any risk as described below.

Activities Added

The 2010 budget development process resulted in the addition of projected spend of \$50 million, covering the following activities:

- Endicott Turnaround (*i.e.*, major maintenance) project (pulled forward, originally scheduled for 2011)
- Seawater Injection Plant piping replacement
- Gathering Center 3 heating and ventilation
- Central Gas facility flange repairs
- Flow Station broach heater repairs
- N-Pad Injection pipeline header repairs
- Lisburne 03 pipeline repairs
- Deadleg abatement

Activities Deferred

We deferred or re-paced the following activities. As noted above, we risk-assessed each of the activities and identified mitigative measures to reduce any risk to safe operations. Examples of deferred activities follow:

Activity	Mitigation
1.1 drilling rig year of activity	No impact to safety
GPB S-36 pipeline replacement	Pipeline has been inspected and is safe to operate. Flows and pressures reduced to mitigate erosion until 2011 replacement
Gathering Center 2 solids handling upgrades	Modified separators and clean-out schedules until 2012 upgrades
Tank inspections and upgrades	Prioritized tank utilization to enable re-pacing
Endicott and GPB wastewater treatment plant upgrades	Leveraging Liberty wastewater treatment systems and upgraded holding tanks at GPB

Summary

We have taken measurable steps to ensure that the development of the 2010 budget fully incorporated line operations workforce input. The 2010 budget process, like all others, included inherent, but healthy, tension around the scope and pacing of specific activities. Input from line operations directly impacted the addition of activities, as noted, and caused other activities to be deferred or re-paced. All these decisions were underpinned by thorough and robust risk assessments. We believe that our 2010 budget contains the right activities to deliver safe, reliable and efficient operations in support of our business objectives.