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10 September, 2008

Mr Philip Weickhardt
Commissioner
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

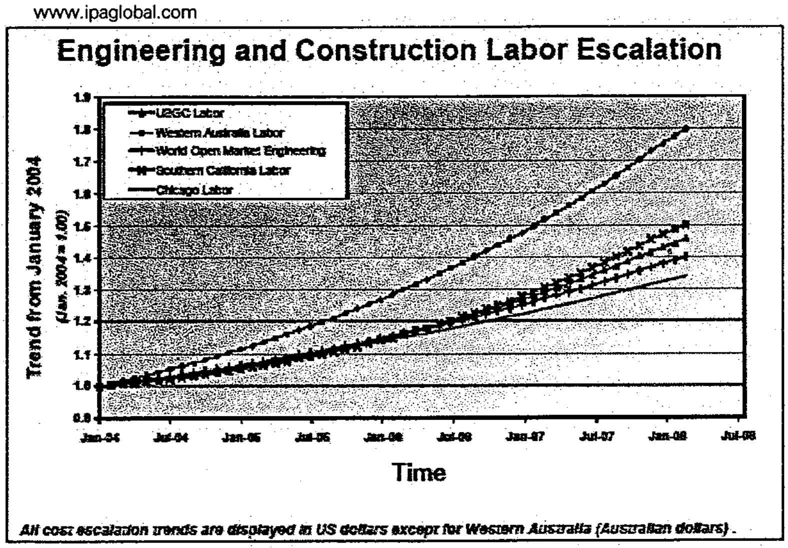
Dear Commissioner Weickhardt,

Review of the regulatory burden on the upstream (oil and gas) sector

Thank you for the opportunity to contribute to this Review. BP has substantial upstream oil and gas interests in Australia and therefore we would like to make some brief strategic points. However as we do not directly operate in the upstream in Australia, our direct experience of interaction with the regulatory system is best presented by the Operator of our principal assets, Woodside Energy Limited. We note and endorse their submission to this review, and also the submission made by the Australian Petroleum Production and Exploration Association (APPEA) of which we are a member.

In particular we would like to endorse comments made about the impact of regulatory delays. Costs have increased substantially over time, especially in heated construction markets such as in Western Australia. As Figure One shows, independent analysis shows that cost escalation due to WA labor costs stands out on a global basis for upstream oil and gas projects. The cost of delay is therefore a very real one, and it is important therefore that regulatory timelines are certain (so that projects can reasonably budget for them) and also that assessments are expedited as far as possible consistent with proper examination of the regulatory issues. This does not mean that we are opposed to a robust and thorough examination of proposals by regulators – indeed, independent scientific scrutiny can be an essential component of

Figure One: IPA Cost Newsletter May 2008, Independent Project Analysis Inc, www.ipaglobal.com

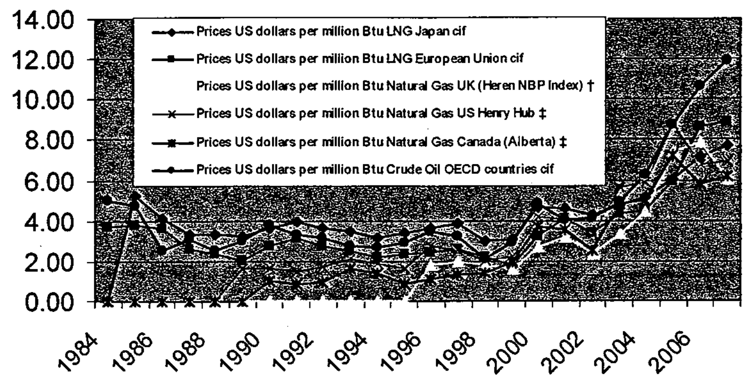


securing broad community consent. But it does mean that certainty around timing and process is a valuable goal.

We have also noted in some submissions that the Productivity Commission has received some calls for regulations to be changed in order to encourage accelerated development of resources. Some submissions call for a tougher "use it or lose it" approach to retention leases; others call for fixed amounts of gas to be reserved for domestic use. Without wishing to enter in to a debate about the policy merits of these positions in this submission, we do believe it is important that the Productivity Commission notes that it is not possible for an economy to regulate its way into private investment. The regulatory system can facilitate investment, but it cannot enforce it.

For example, some commentators and submissions have pointed to the fact that some gas reserves, discovered more than thirty years ago, have yet to be developed. This is true, but to lay the blame solely at the door of the regulatory system is to ignore the commercial reality. Figure Two shows gas prices over the last decade and a half, and shows they remained relatively stable (and low from the perspective of the costs of LNG production) until 2002, since when they have broadly doubled. It is this story which most accurately accounts for the relative lack of development in earlier periods, followed by the period of concerted development activity in recent years. We therefore contend that the case for regulatory change to seek to force companies to invest is misguided, and should be rejected by the Productivity Commission.

Fig Two: Gas Prices: BP Statistical Review of World Energy 2008



Yours sincerely
for BP Developments Australia Pty. Ltd.

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