

STATEMENT OF JEFF MORGHEIM
CLIMATE CHANGE MANAGER, BP
TO SENATE COMMITTEE ON COMMERCE, SCIENCE AND
TRANSPORTATION
FULL COMMITTEE HEARING ON SOLUTIONS
TO REDUCE GREENHOUSE GAS EMISSIONS

SEPTEMBER 21, 2000

Mr. Chairman and Members of the Committee, my name is Jeff Morgheim and I am the Climate Change Manager for BP. I'm based in Houston, Texas, where I manage BP's Emissions Trading System. I'm excited to present our system to you. The BP system is the world's first global trading system for greenhouse gases and is the only trading system that has voluntarily participation across a company's entire operations.

The BP trading system is the product of a commitment to explore the use of trading systems to control emissions. The trading system is a powerful tool that is helping BP meet its reduction target cost effectively. I would like to recount how we developed the system.

In May 1997, Sir John Browne, chief executive officer of BP, announced that BP would reduce its emissions of greenhouse gases and launch a pilot internal emissions trading system. In July of that same year, BP teamed with Environmental Defense to develop the pilot system. Environmental Defense has been an important partner and we want to again express our thanks to Fred Krupp and Dan Dudek (*insert titles*) of Environmental Defense for their contribution and continued support.

In September 1998, the pilot system was launched. The pilot involved twelve business units from across the globe, representing approximately 25% of the company's emissions. In that same month, Sir John Browne announced that BP would reduce its greenhouse gas emissions by 10% from 1990 levels by the year 2010. He also announced that we would launch a company wide trading system by 2000. In November 1998, I had the privilege to sell the first emissions permit in the pilot system while working for the Forties Pipeline System in the United Kingdom.

I would like to briefly describe how our system functions. On January 1 of this year, BP launched its company-wide emissions trading system. More than 150 business units in over 100 countries participate. These business units range from oil exploration to power generation. On January 14, the first trade was made with a sale to our refinery in Toledo, Ohio. I am pleased to announce that BP traded its millionth ton of greenhouse gas just over two weeks ago, with the sale of permits from our gas operations in the Western United States to our refinery in Salt Lake City, Utah.

I would like to outline the mechanics of our global trading system. Every year, BP sets a target for greenhouse gas emissions stated in carbon dioxide equivalent terms. BP then allocates its target to every business unit in the form of permits. One permit is equal to

one ton of carbon dioxide equivalent emissions. Each business unit is required to have enough permits to cover their annual emissions.

Each business unit then decides if it more economical for them to live within their permit level, to invest in reductions below their permit level and sell the additional reductions to other business units, or to exceed their permit level, provided they have bought permits resulting from reductions at another business unit. In this way, BP achieves the company emissions target at the lowest possible cost.

Trading alone does not deliver emissions reductions. The trading system, however, provides our managers with the incentive to attack emissions with innovation. For example, in the Western United States, we are changing 4,000 valves on our gas well sites to reduce emissions of methane equivalent to more than a million tons of carbon dioxide per year while also saving the company money.

As stated earlier, this year we not only launched the full trading system across our company, but traded our one millionth ton of greenhouse gases. This milestone was reached only two years from the launch of our pilot system and our commitment to a company-wide system.

We have learned many lessons along the way. The most important lessons are: to keep things simple, to get started, to capture the learning and to continuously improve the system. Practical experience is the key to developing a robust system.

Mr. Chairman, I would like to conclude by saying that BP's experience is that trading is a powerful tool in the management of emissions in a cost-effective way. We haven't stopped learning and BP seeks to continuously improve its trading system. We stand ready to share our experience with all interested parties.

Thank you for the opportunity to share our system and our lessons.