Senate Resources Committee

SB21

Bob Heinrich, VP Finance
Scott Jepsen, VP External Affairs
ConocoPhillips Alaska

February 20, 2013
Topics

- Alaska’s Production Challenge
- Investment Considerations and Alaska’s Cost Environment
- ACES and SB21
- Observations
Alaska Decline Continues While Lower 48 Production Continues to Increase

Source: U.S. Energy Information Administration
Alaska – A Challenging Investment Climate
Investment Criteria: How Alaska Ranks

- Exploration
  - Prospectivity
    - Expected field size/maturity
    - Crude quality
- Costs
  - Exploration, development & production cost
  - Transportation costs to market
- Cycle Time
  - Time to production
  - Permitting/regulatory environment
- Taxes
  - Tax rates given challenged location
  - Tax rates compared to other states & countries
- Legacy Field Opportunities
  - Billions of barrels left to be developed
  - Significant production volumes
Alaska Legacy Fields Still Provide Significant Opportunity

*Source: DOR 2009 production forecast 2010 – 2050 volumes

Legacy Fields are...
- About 90% of North Slope 2012 production
- Lion’s share of estimated future production
- Key to offsetting ANS decline

Legacy Fields: Kuparuk, Prudhoe, & Alpine areas

Future Production 2010 – 2050*
Billion Barrels Liquids (Cumulative)

0.0 1.0 2.0 3.0 4.0

Legacy Fields  Pt Thomson  Nikaitchuq  Liberty  Oooguruk
Alaska’s Days of “Easy Oil” Are Gone: High Costs and High Government Take Present Challenges

Costs are significantly higher in Alaska than the Lower 48 – even compared to unconventional. Meanwhile, Alaska’s Government Take has risen significantly over recent years, meaning new project economics can be very challenging.
“Easy Oil” In the Legacy Fields Is Gone

- Challenged oil remains
  - Complex, high cost wells
  - Smaller reserve targets
  - Fault blocks, flank oil
  - Satellites, viscous oil
  - Most new wells produce oil AND water
  - Facilities handling ~ three times as much water as oil

- A billion dollars does not go as far as it used to...
  - 2000 Alpine development ~80,000 BOPD
  - 2012 CD-5 Drillsite ~18,000 BOPD
ACES Observations

**Positive Elements**
- Tax credits help offset Alaska’s high cost environment
- Tax credits provided for both new and legacy fields

**Negative Elements**
- High average tax rates
- High marginal tax rates
- Gross minimum tax
  - Tax still paid if revenues don’t cover costs
ConocoPhillips Capital Allocation

Investment has tripled in the Lower 48

Investment has remained flat in Alaska

Investment flows where investor has upside

Source: ConocoPhillips 10K
Producer Share under SB21

Based on Fall 2012 Revenue Sources Book data for FY2014
Recap of ConocoPhillips Perspective

- **ACES**
  - Progressivity takes the upside and discourages investment
  - Tax credit investment incentives positive, but do not offset the negative effects of ACES progressivity

- **SB21 Positive Elements**
  - Positive step to improve Alaska’s business climate
  - Solves the high marginal tax problem
  - Makes Alaska more competitive at $100+ prices

- **SB21 Areas for Improvement**
  - Bill does not contain sufficient investment incentives for legacy fields to offset Alaska’s high cost environment
  - Does not encourage investment relative to ACES in a downward trending oil price environment