Senate Finance Committee

CSSB21

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March 5, 2013
Topics

- Alaska Challenges
- CSSB21 vs ACES
- Observations
North Slope Investment Challenges

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

- ACES tax structure
  - High average & marginal tax rates
  - Progressivity eliminates upside
  - Tax credits attempt to offset high tax rates and high costs. Applies to both new and legacy fields

Upper right plot based on Fall 2012 Revenue Sources Book data for FY2014
Lower right plot based on ConocoPhillips 2007 – 2011 10-K reports; State share is royalties (estimated), production tax, ad valorem tax and state income tax; oil prices are ConocoPhillips average realized prices on the West Coast
Changes to ACES to Improve Alaska’s Investment Climate

<table>
<thead>
<tr>
<th>Change</th>
<th>CSSB21</th>
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<tbody>
<tr>
<td>• Eliminate progressivity</td>
<td>✓</td>
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<tr>
<td>• Create a flatter tax rate over a broad range of prices</td>
<td>✓</td>
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<tr>
<td>➢ Producer and State share proportionately as prices fluctuate and margins change</td>
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<td>• Establish a tax structure creating an attractive investment climate</td>
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<tr>
<td>➢ Competitive tax rate</td>
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<td>➢ Provide the incentives to balance Alaska’s high cost environment</td>
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<td>➢ Incentives for both legacy and new field investments</td>
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<td>• Issues</td>
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<td>➢ Tax increase at lower prices – base rate too high</td>
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<td>➢ GRE will have minimal impact on legacy fields.</td>
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ACES vs CSSB21

CSSB21 is a tax increase relative to ACES at lower prices

Based on Fall 2012 Revenue Sources Book data for FY2014
Gross Revenue Exclusion

- GRE targeted primarily at new fields and extensions of existing fields
  - Extensions identified as participating area (PA) expansions
  - Legacy field PA expansions included
  - Increase to 30% is an improvement, but less effective than tax credits

- GRE will likely not have significant impact on legacy fields

**Legacy Fields are...**

- Greatest investment opportunity resides inside existing legacy PAs
- About 90% of North Slope 2012 production
- Lion’s share of estimated future production
- Key to offsetting ANS decline

*Source: DOR 2009 production forecast 2010 – 2050 volumes*
Observations

- **CSSB21 an improvement over ACES**
  - Provides relatively flat tax rate with slightly progressive nature over a broad price range
  - Elimination of progressivity solves the high marginal tax problem
  - Makes Alaska more attractive for investment at $100+ prices
  - Increase in GRE positive

- **CSSB21 changes for an improved investment climate**
  - Reduce base tax rate
  - Create incentives for both new and legacy fields
    - Few legacy field projects would qualify for GRE
    - Consider tax credits associated with production