March 26, 2013

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

CSSB21

House Resources Committee
North Slope Investment Challenges

- Significant resource
  - As much water as oil
  - Fault blocks, flank oil
  - Smaller reserve targets
  - Complex, high cost wells
- Challenged oil remains
  - Production limits, high expenses
- High-impact tax rates
  - Low/medium tax rates
- Sizeable upfront capex, high ongoing cash costs
  - Small funds
- Small cap businesses, investor concern
  - Low cash flows
- 20% investment tax credit, support
  - Marginal tax rate
- Marginal tax rate
  - 20% investment tax credit
Changes to ACS to Improve Alaska's Investment Climate

- New field investments incentives for both legacy and environment
- Balance Alaska's high cost provide the incentives to
- Competitive tax rate attract investment climate
- Establish a tax structure creating an

Estimate and margin change fluctuate proportionally as prices producer and state share range of prices create a flatter tax rate over a broad

Eliminate progressivity
- Simple and clear
- GRE qualified wells
- Utilize current allocation methodologies to determine production from
  - GRE meets the criteria for qualified capital receivables
  - Production from any new well (side track, CTD, Grass Roots, well, etc.) that

Suggested changes to GRE

- Accurately metered and measured "is a potential issue"
- Criteria for GRE would appear to exclude Legacy fields
- Qualifying for a GRE is problematic for Legacy field investments

20% GRE with no time limitation provides incentive

Gross Revenue Exclusion (GRE)
- Modify GRF to create incentives for both new and legacy fields
- Reduce base tax rate

**CSSB21 Changes for an Attractive Investment Climate**

- Concept of GRF positive
- Makes Alaska more attractive for investment at $100+ prices
- Elimination of progressivity solves the high marginal tax problem
- Broad price range
- Provides relatively flat tax rate with slightly progressive nature over a CSSB21 an Improvement over ACES