

Senate Finance

Discussion of CSSB192

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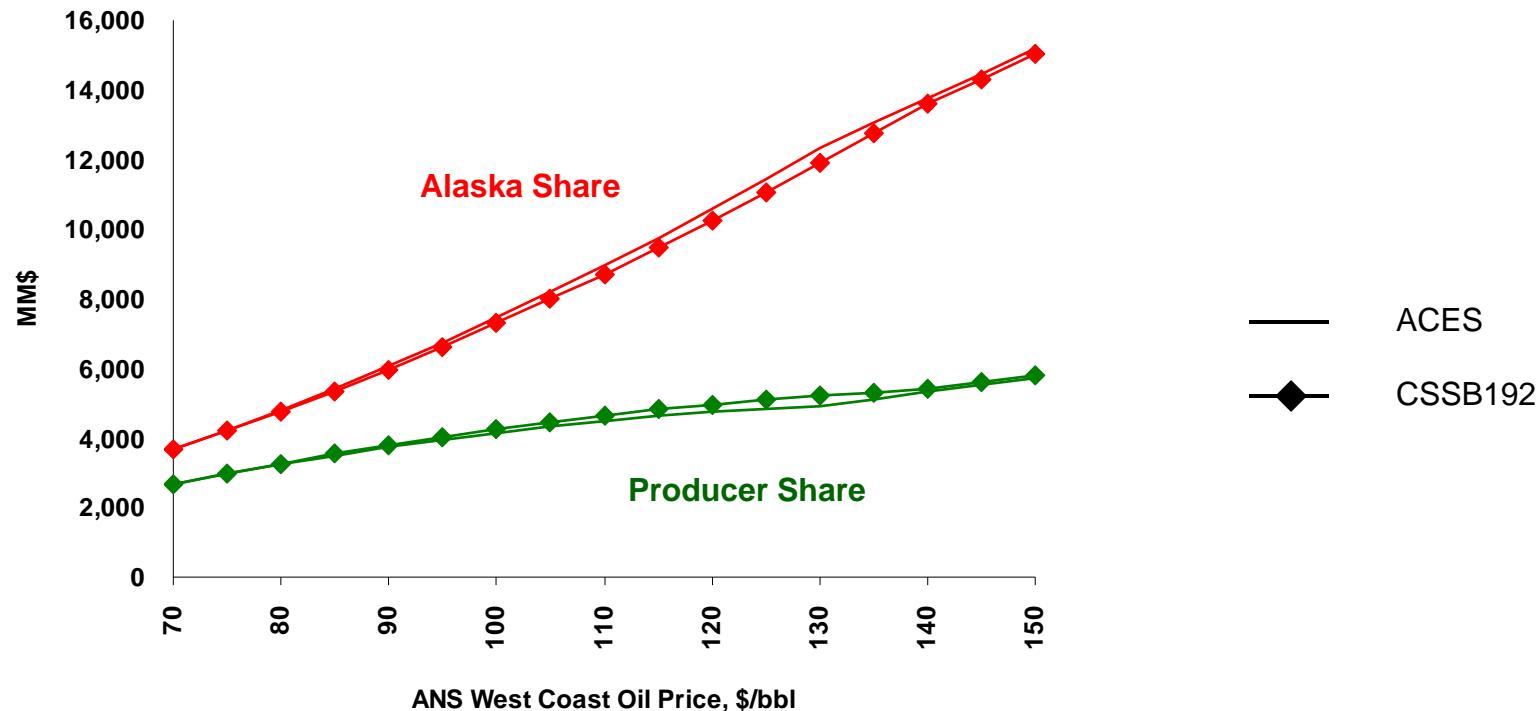
ConocoPhillips Alaska

March 21, 2012

Agenda

- CSSB192 provisions
 - Progressivity change
 - Discretionary production “incentive”
 - Increased gross minimum tax
 - Oil information system
 - Decoupling
- Framework for modifications

Progressivity Change



- 0.05% decrease in progressivity provides only minimal impact, and only over narrow price range
- 60% tax cap has no impact below ~\$230/bbl
- PFC Energy: “The impact of the reduction in the progressivity ... is limited to around a single percentage point of government take at \$100 ANS crude”

0.05% progressivity reduction does not improve the investment climate

Discretionary Production “Incentive”

- Does not incentivize the significant investments required just to offset decline
- Production aggregated by producer - no benefit derived by new satellite if production offset by decline at other fields
- For the short lived benefit period, the PTV reduction impact is immaterial
- Discretionary – can't plan for it
- PFC Energy: “the impact of the \$10 [PTV] allowance for “new oil” is almost undetectable”

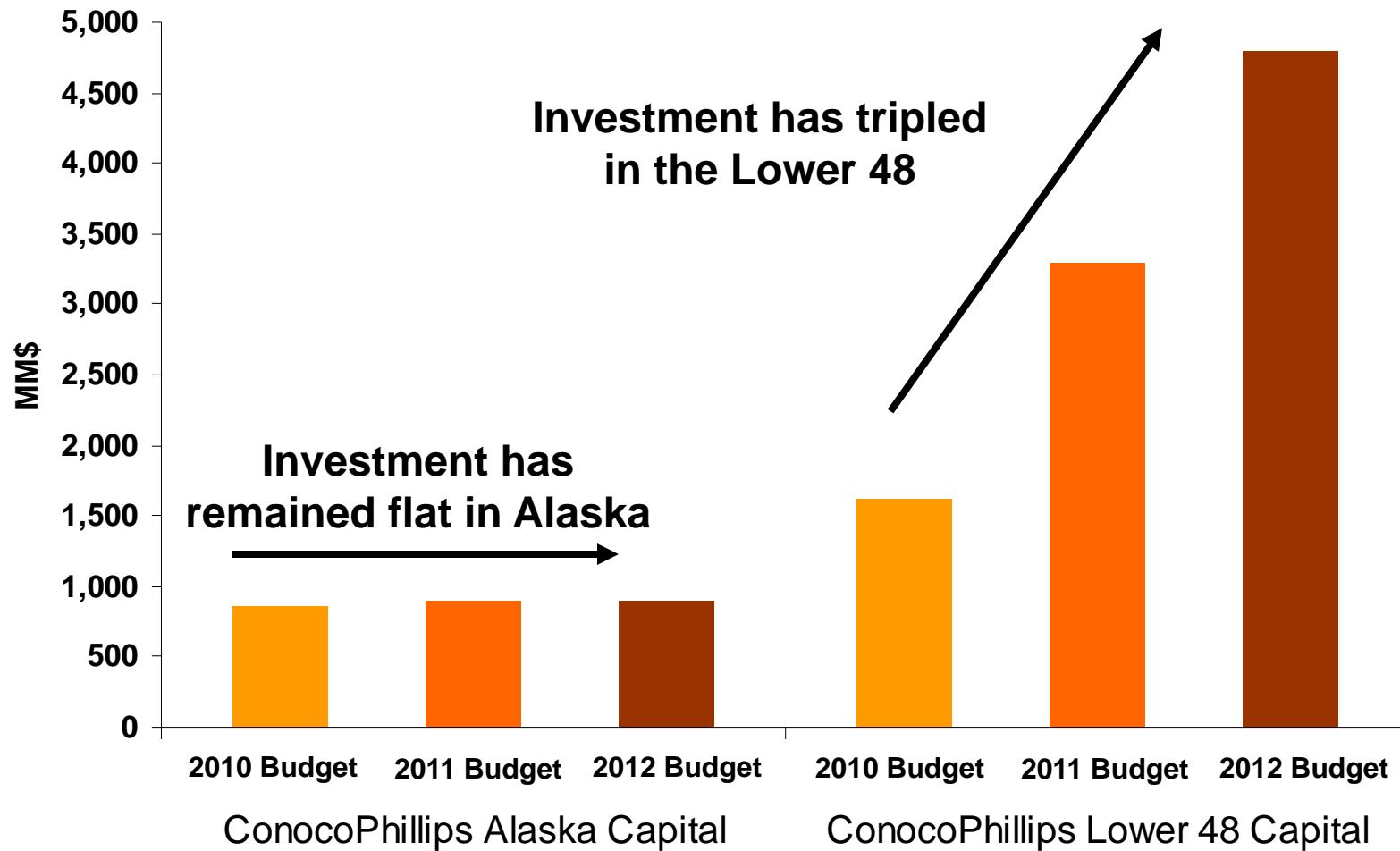
Discretionary production “incentive” does not improve the investment climate

Other Provisions

- Increased gross minimum tax
 - A minimum tax is already in place under ACES
 - Increased minimum tax triggers at higher price than under ACES
 - Impact is increased taxes at low to moderate oil prices
- Oil information system
 - Provides for a sweeping list of data to be warehoused
 - Burdensome and potentially duplicative
 - Includes data considered to be trade secrets
 - Confidentiality concerns
 - Creates unrealistic expectations about public access to specific data
- Decoupling
 - Administratively burdensome
 - Cost allocation mechanism unknown – left to discretion of DOR
 - Implementation should be tied to major gas sales

These provisions do not improve the current investment climate

ConocoPhillips Capital Allocation



Investment flows where investor has upside

Will Alaska Benefit From Reduced Oil Taxes?

ConocoPhillips
Alaska

Last spring, ConocoPhillips made the following commitments to Alaska if the business environment is improved:

- We will pursue increased drilling activity on the North Slope
- We will aggressively pursue more satellite developments at Alpine and Kuparuk
- We will work with partners to develop major projects at Prudhoe Bay
- We will proactively pursue other projects that can move the needle on oil production

An Open Letter to All Alaskans from ConocoPhillips

Our Commitment to Moving Alaska Forward

Dear Alaskans:

The oil industry in Alaska is at a crossroads. The amount of oil in the Trans Alaska Pipeline is declining at a faster rate than projected even a year ago. State and federal officials are, for the first time, talking openly about the challenges with TAPS low flow in light of the recent shut down of TAPS.

No other state's production has declined more than Alaska in the past eight years. But it doesn't have to be that way. The oil industry and the state of Alaska must work together now to put more oil in the pipeline and bridge the more than 10-year gap between now and when oil from offshore and other sources can hopefully refill TAPS.

Governor Parnell has introduced a bill, HB 110/SB 49, to reduce oil taxes in an effort to restart development and create new jobs. However, some have questioned the oil industry's commitment to Alaska.

In Alaska this week, ConocoPhillips reinforced that commitment to the state. If the business environment is changed, we at ConocoPhillips will do more to help bring Alaska's challenged oil to the market.

We will increase our drilling activity on the North Slope.

We will proactively pursue more North Slope projects that can move the needle on oil production while employing Alaskans and creating new opportunities for Alaska businesses.

We will work with BP and ExxonMobil to advance significant projects like Gas Partial Processing (GPP) and IPAD at Prudhoe Bay.

We will aggressively pursue more satellite developments at both Kuparuk and Alpine.

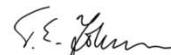
Our company believes Governor Parnell's goal of producing 1 million barrels of oil per day is a goal around which we can all unite.

At ConocoPhillips, we believe in the potential that Alaska has to offer. We have demonstrated our commitment to the environment by continuing to operate in the cleanest and safest way we can. We have shown a long history of investment, both human and financial, to bring the resources of this great state to the market. We have stood with many Alaska companies, including Alaska Native corporations, to build an oil and gas industry that has provided many jobs to Alaskans.

If the Legislature provides for an effective date of 2012, ConocoPhillips will do our part to accelerate new activity on the North Slope.

Alaska has tremendous resource potential, and we at ConocoPhillips have over 50 years in Alaska in solving technical and environmental challenges associated with oil development. We support improving the investment climate and believe changing oil taxes will lead to a better future with more production and jobs for Alaska families than the current path we are on.

Sincerely,



Trond-Erik Johansen

President
ConocoPhillips Alaska Inc.



Jim Mulva

Chairman and Chief Executive Officer
ConocoPhillips

ConocoPhillips

Alaska's Oil & Gas Company

Framework for Modifications

- CSSB192 as currently proposed does not improve the investment climate
- Focus the legislation on elements that will make the Alaska North Slope an attractive place for investment
 - Significantly reduce rate of progressivity or incorporate bracketing
 - If decoupling is included, make implementation contingent upon major gas sales
 - Meaningful change must include the legacy fields – this is where the largest potential production gains reside
- Changes on same order of magnitude as HB110 will lead to more investment and production