
Senate Resources Committee

SB21

Bob Heinrich, VP Finance

Scott Jepsen, VP External Affairs

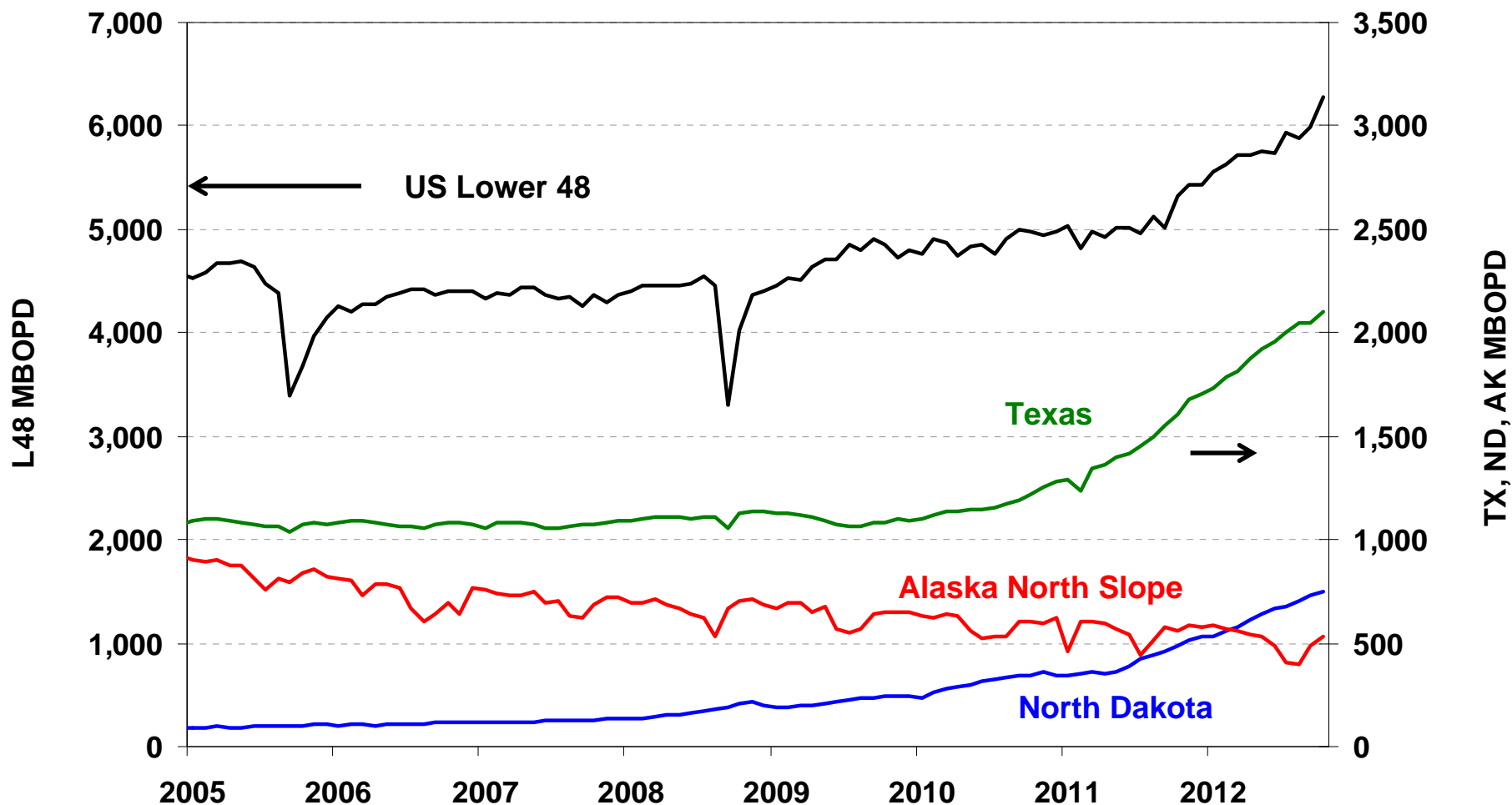
ConocoPhillips Alaska

February 20, 2013

Topics

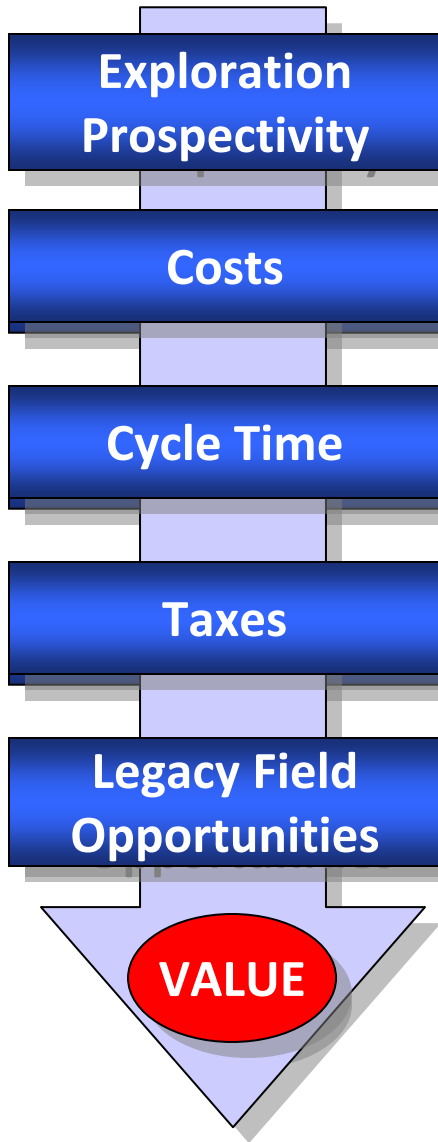
- ▶ Alaska's Production Challenge
- ▶ Investment Considerations and Alaska's Cost Environment
- ▶ ACES and SB21
- ▶ Observations

Alaska Decline Continues While Lower 48 Production Continues to Increase



Alaska – A Challenging Investment Climate

Investment Criteria: How Alaska Ranks



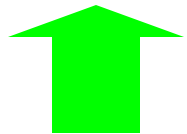
- Expected field size/maturity
- Crude quality

- Exploration, development & production cost
- Transportation costs to market

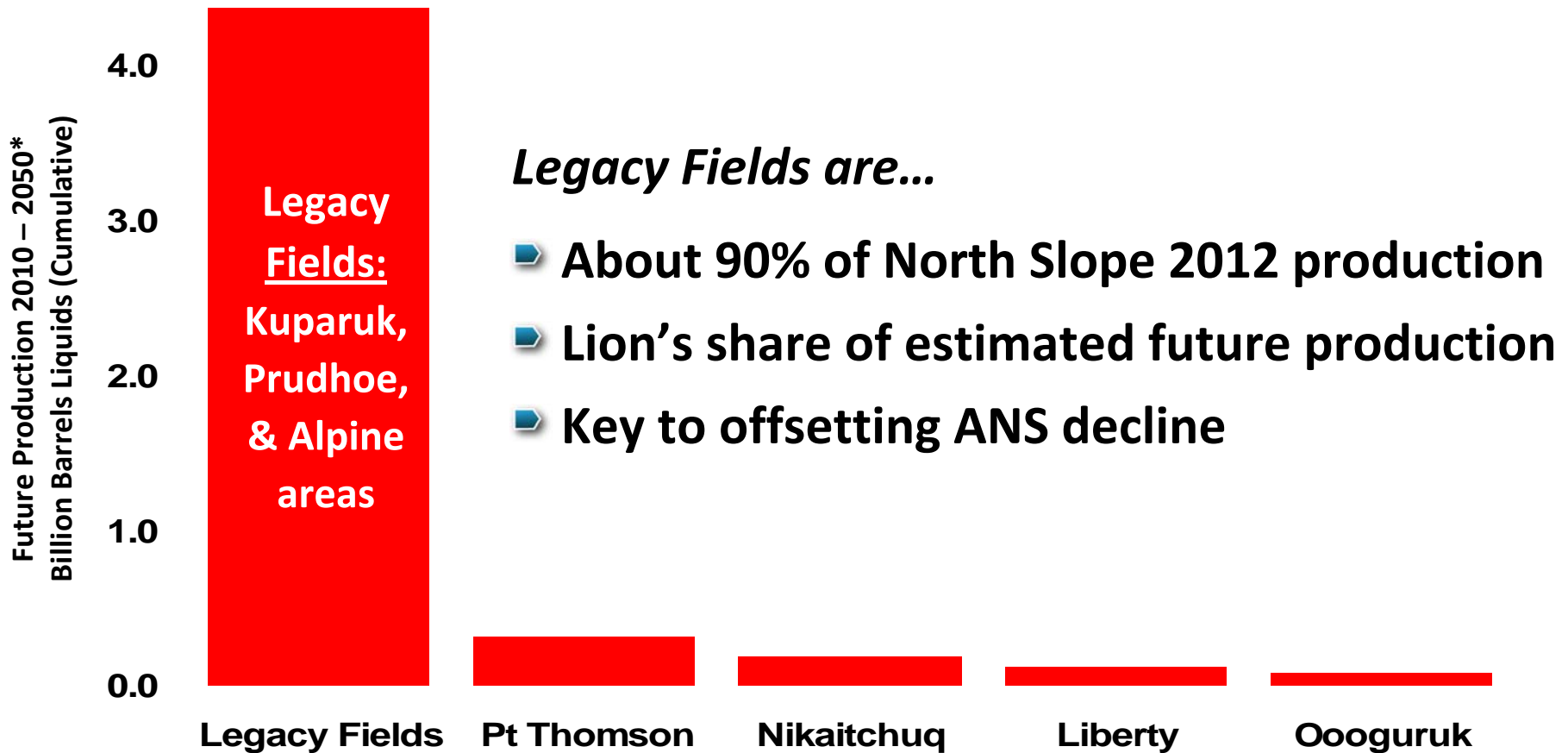
- Time to production
- Permitting/regulatory environment

- Tax rates given challenged location
- Tax rates compared to other states & countries

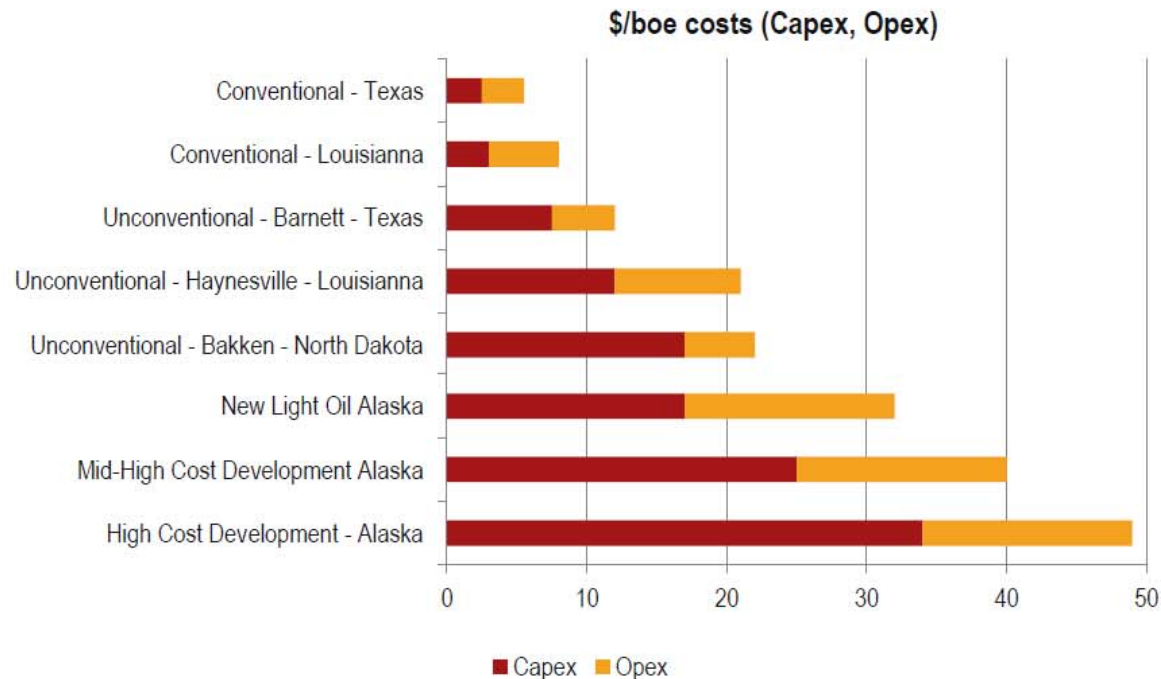
- Billions of barrels left to be developed
- Significant production volumes



Alaska Legacy Fields Still Provide Significant Opportunity



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 unconventionals. 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



Initial Alpine Development



CD-5 Type Development

ACES Observations

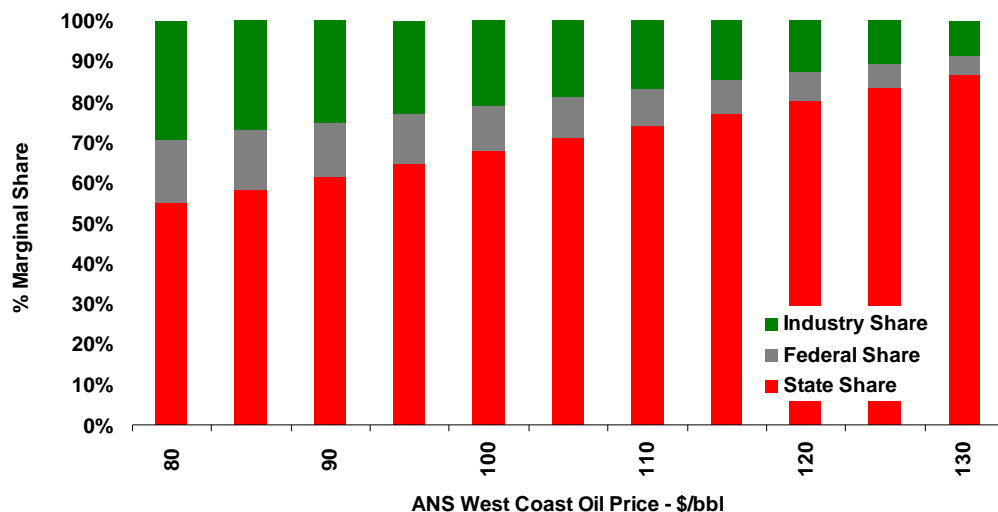
Positive Elements

- Tax credits help offset Alaska's high cost environment
- Tax credits provided for both new and legacy fields

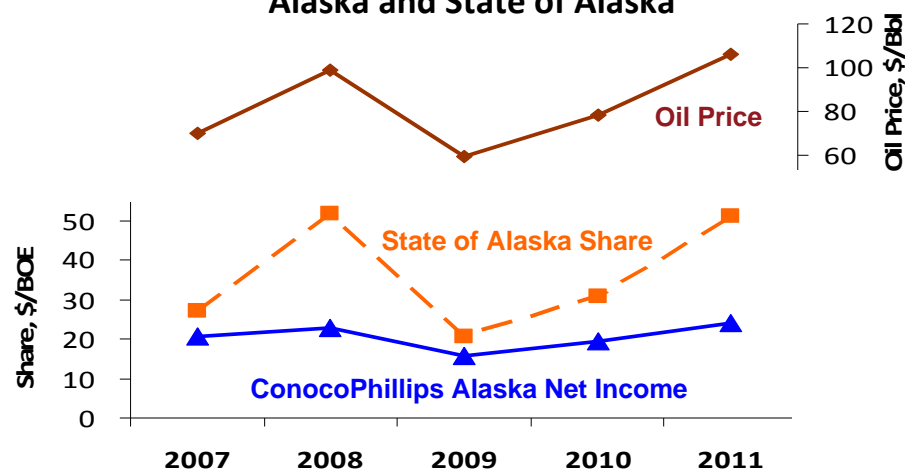
Negative Elements

- High average tax rates
- High marginal tax rates
- Gross minimum tax
 - Tax still paid if revenues don't cover costs

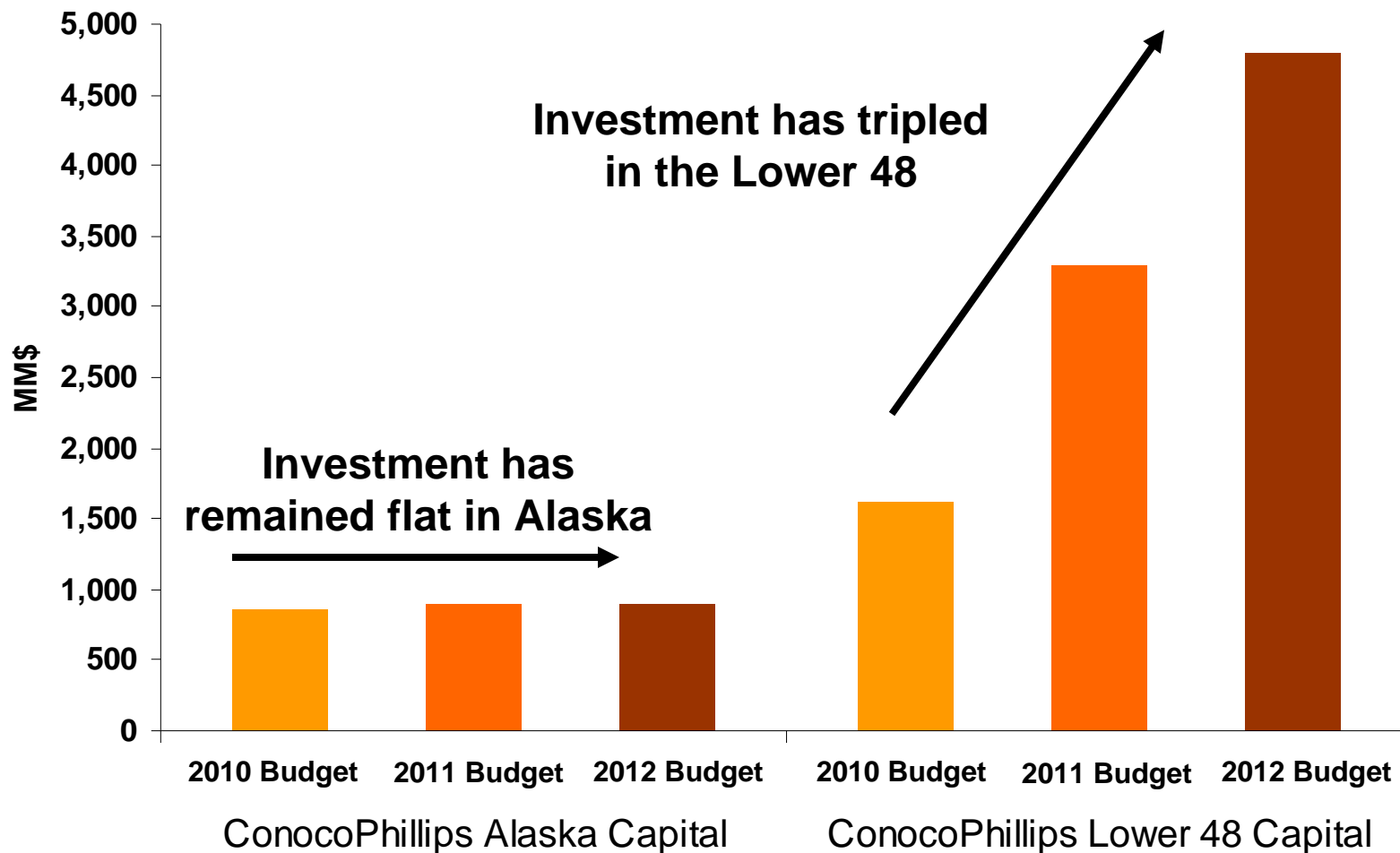
Government and Industry Marginal Share in Alaska



Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska

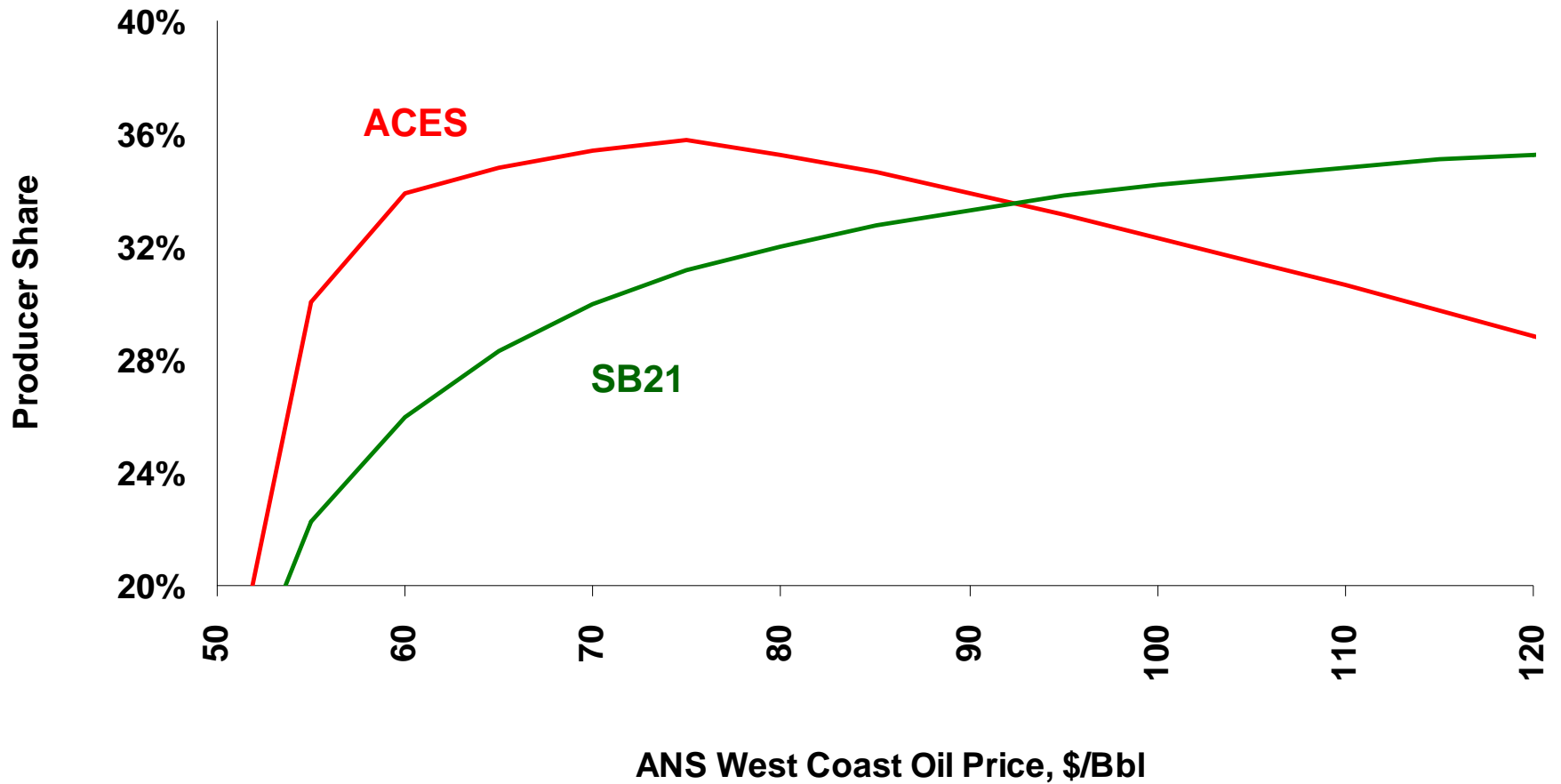


ConocoPhillips Capital Allocation



Investment flows where investor has upside

Producer Share under SB21



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