

ConocoPhillips Alaska
Senate Resources Committee
CSSB21 – February 25, 2013

Madam Chair, members of the committee, for the record my name is Bob Heinrich, and I am the Vice President of Finance for ConocoPhillips Alaska. I want to thank the committee for inviting ConocoPhillips to provide brief testimony today on the committee substitute adopted this past Friday. While we have not had time to do an in-depth analysis, we do have some initial thoughts we would like to share.

First, we appreciate the committee's efforts to incorporate the feedback and testimony of those who have come before the committee. We understand the committee's desire to develop an oil and gas production tax framework that fits with the governor's principles for oil tax reform. Namely, reform that is fair to Alaskans, encourages new production, is simple and balanced, and is durable.

In our prior testimony, we have advocated for changes to ACES that eliminates progressivity; that creates a flat tax rate over a broad price range; and that provides the business climate to attract investment and overcome Alaska's inherent cost disadvantages. The committee substitute introduced Friday moves towards achieving several of these goals. In particular, the CS clearly has resulted in a relatively flat tax rate with only a slightly progressive nature over a broad price range – something we view as a positive step.

The increase in the GRE and the ability to apply the GRE to production from expansions of participating areas within existing units is also positive. However, at this point, we have not yet had time to fully evaluate the impact on potential projects.

We do have a few areas of concern, however. As your consultants showed you in their analysis on Friday, the CS under consideration remains a tax increase relative to ACES at lower price levels. That could be fixed by decreasing the base rate, which we are concerned is too high. Also, even though the overall level of government take, as estimated by Econ One, appears to be in the ballpark with the average government take in other jurisdictions, the question remains whether that will be enough to compensate for the high costs in Alaska. We have not done enough analysis to tell you if we can answer that question from ConocoPhillips' point of view. The answer is likely to be different for every company given each company's differences in cost structure, economic hurdle rates, and suite of opportunities.

Our comments today have been brief as requested and have focused on those elements of the bill that are of most interest to ConocoPhillips. We appreciate the opportunity you have provided today to present our initial impressions.

We look forward to working with the legislature as the governor's bill continues through the committee process.