Senate Finance Committee

CSSB21

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

March 5, 2013

Topics

- Alaska Challenges
- CSSB21 vs ACES
- Observations

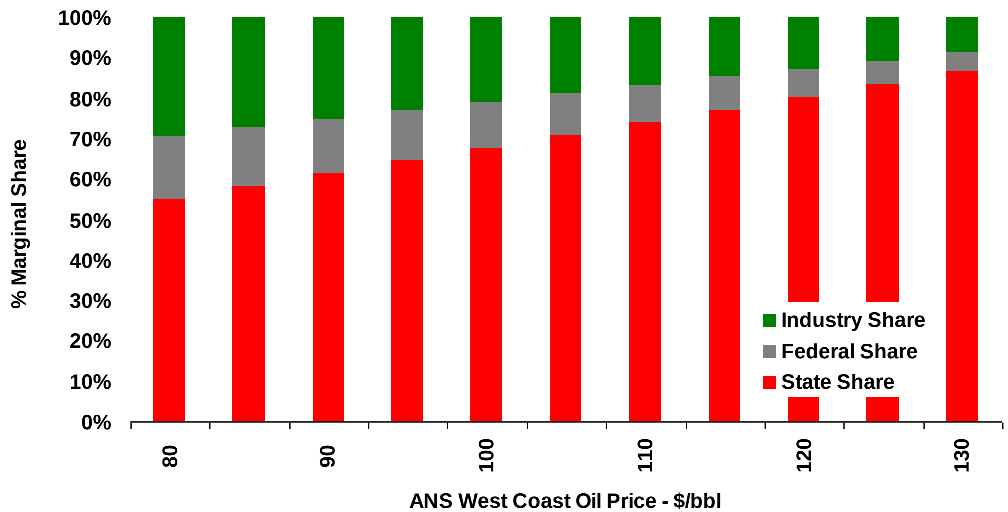
ConocoPhillips

North Slope Investment Challenges

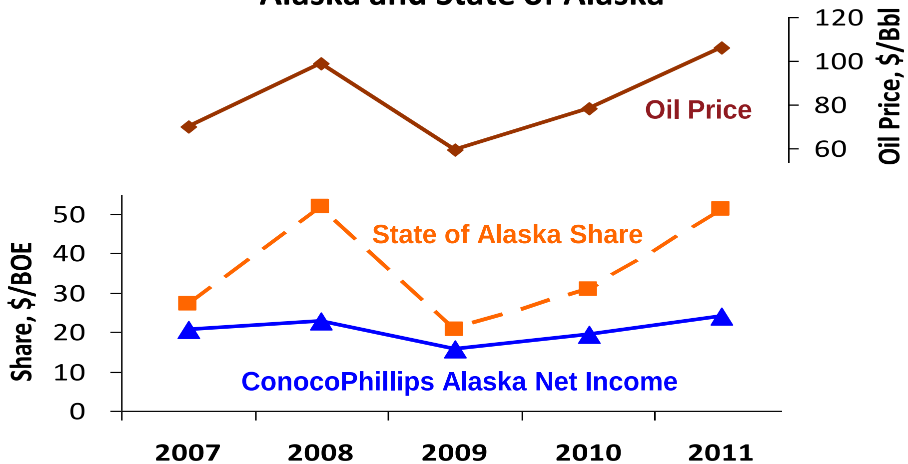
- Challenged oil remains
  - Complex, high cost wells
  - Smaller reserve targets
  - Fault blocks, flank oil
  - Satellites, viscous oil
  - Facilities handling ~ three times as much water as oil
  - Significant resource

- 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

Government and Industry Marginal Share in Alaska



Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska

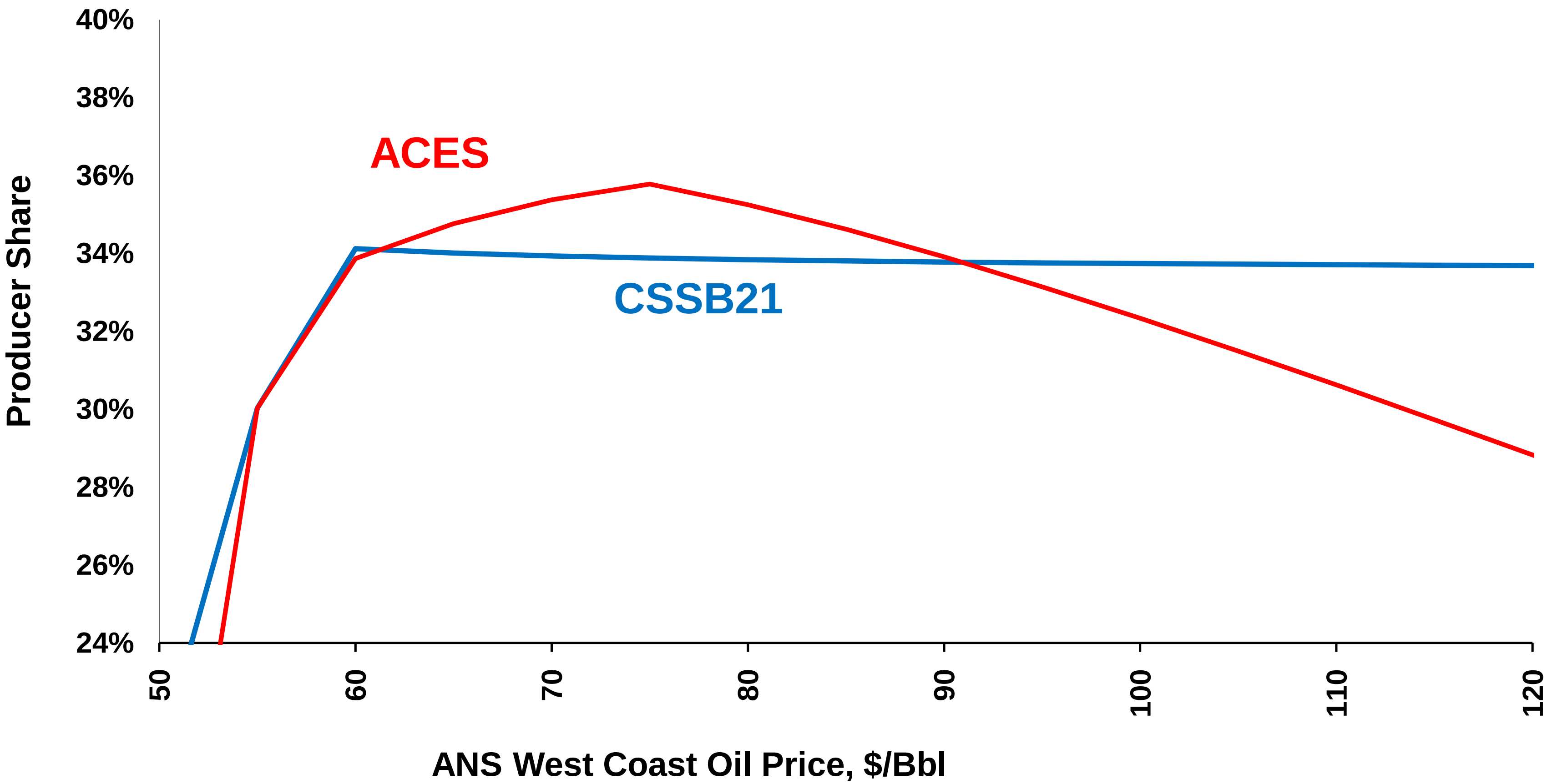


Upper right plot based on Fall 2012 Revenue Sources Book data for FY2014
Lower right plot based on ConocoPhillips 2007 – 2011 10-K reports; State share is royalties (estimated), production tax, ad valorem tax and state income tax; oil prices are ConocoPhillips average realized prices on the West Coast

Changes to ACES to Improve Alaska's Investment Climate

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

ACES vs CSSB21

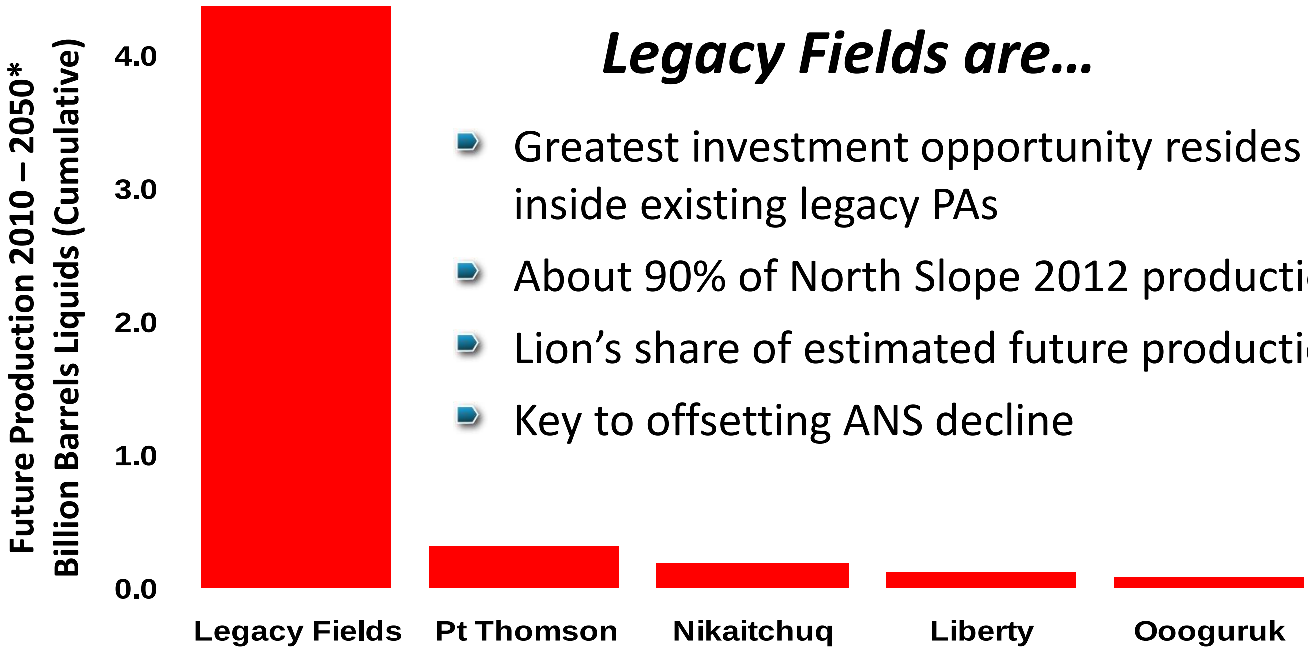


CSSB21 is a tax increase relative to ACES at lower prices

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