House Resources Committee

CSSB21

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

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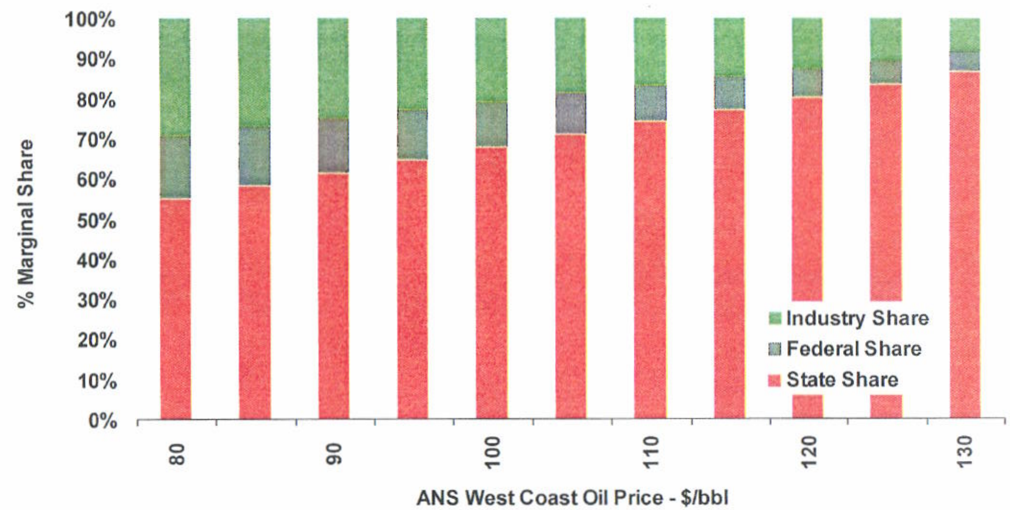
North Slope Investment Challenges

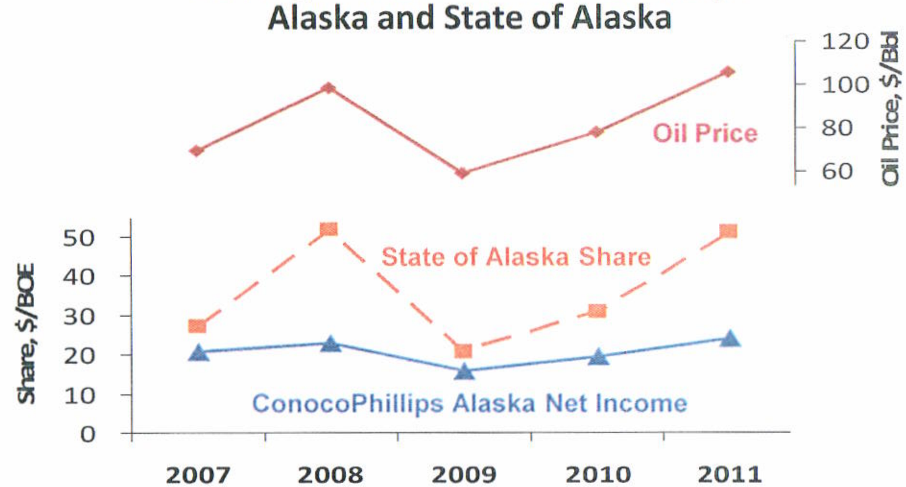
- Challenged oil remains
  - Complex, high cost wells
  - Smaller reserve targets
  - Fault blocks, flank oil
  - Satellites, viscous oil
  - Facilities handling ~ three times as much water as oil
  - Significant resource

- ACES tax structure
  - High average & marginal tax rates
  - Progressivity eliminates upside
  - Tax credits attempt to offset high tax rates and high costs. Apply to both new and legacy fields

Government and Industry Marginal Share in Alaska



Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska



Changes to ACES to Improve Alaska's Investment Climate

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<tr><th>Change</th><th>CSSB21</th></tr>
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- Eliminate progressivity

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- Create a flatter tax rate over a broad range of prices
  - ➢ Producer and State share proportionately as prices fluctuate and margins change

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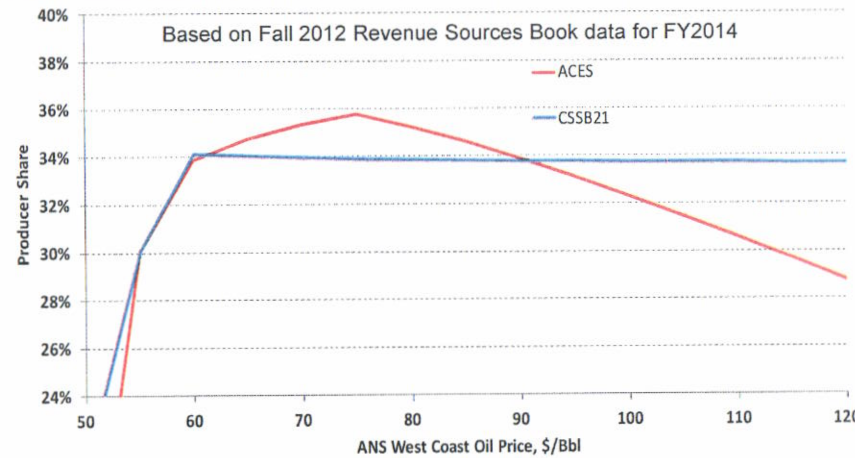

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- Establish a tax structure creating an attractive investment climate
  - ➢ Competitive tax rate
  - ➢ Provide the incentives to balance Alaska's high cost environment
  - ➢ Incentives for both legacy and new field investments

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- Base rate too high
  - ➢ Tax increase at lower prices
  - ➢ Overall tax rate high
- GRE appears to have minimal applicability to legacy fields

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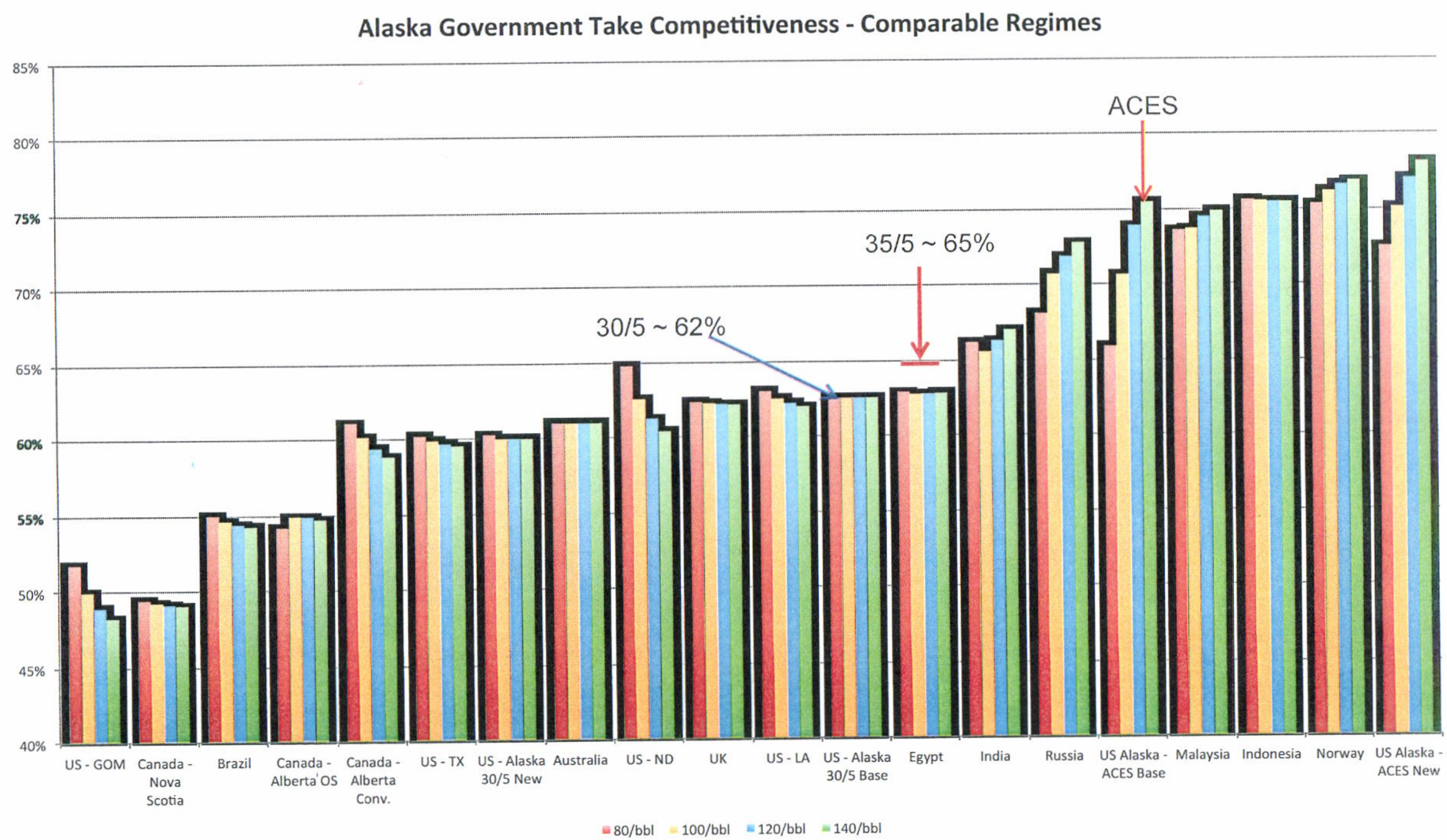
Government Take Competitiveness



PFC Energy

Gross Revenue Exclusion (GRE)

- 20% GRE with no time limitation provides incentive

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

- Suggested changes to GRE
  - Production from any new well (sidetrack, CTD, grass roots well, etc.) that meets the criteria for qualified capital receives the GRE
  - Utilize current allocation methodologies to determine production from GRE qualified wells
  - Simple and clear

Summary

- 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
  - Concept of GRE positive

- CSSB21 changes for an attractive investment climate
  - Reduce base tax rate
  - Modify GRE to create incentives for both new and legacy fields