
Senate Special Committee on TAPS Throughput

SB21

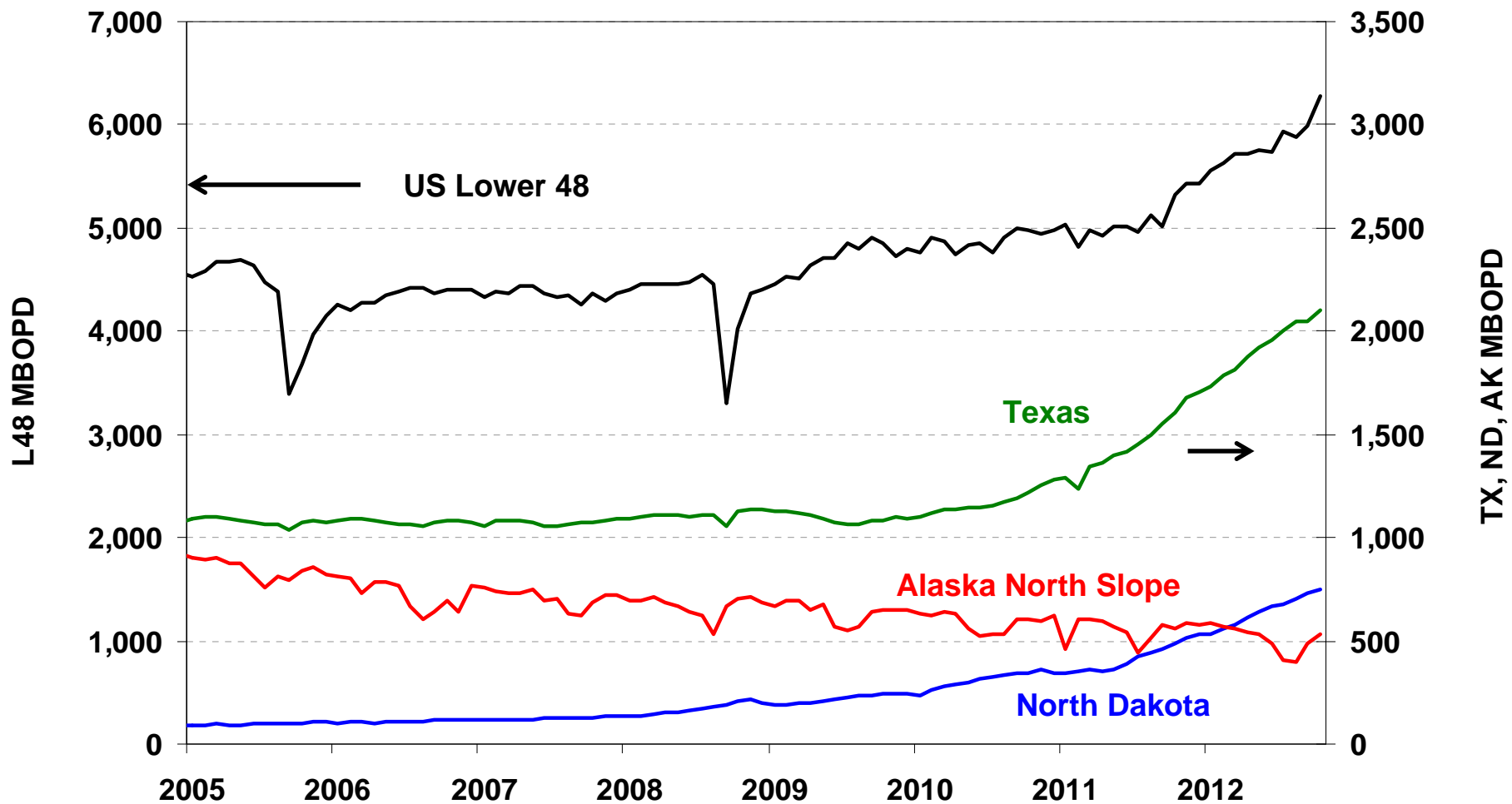
Bob Heinrich, VP Finance
Scott Jepsen, VP External Affairs
ConocoPhillips Alaska

February 5, 2013

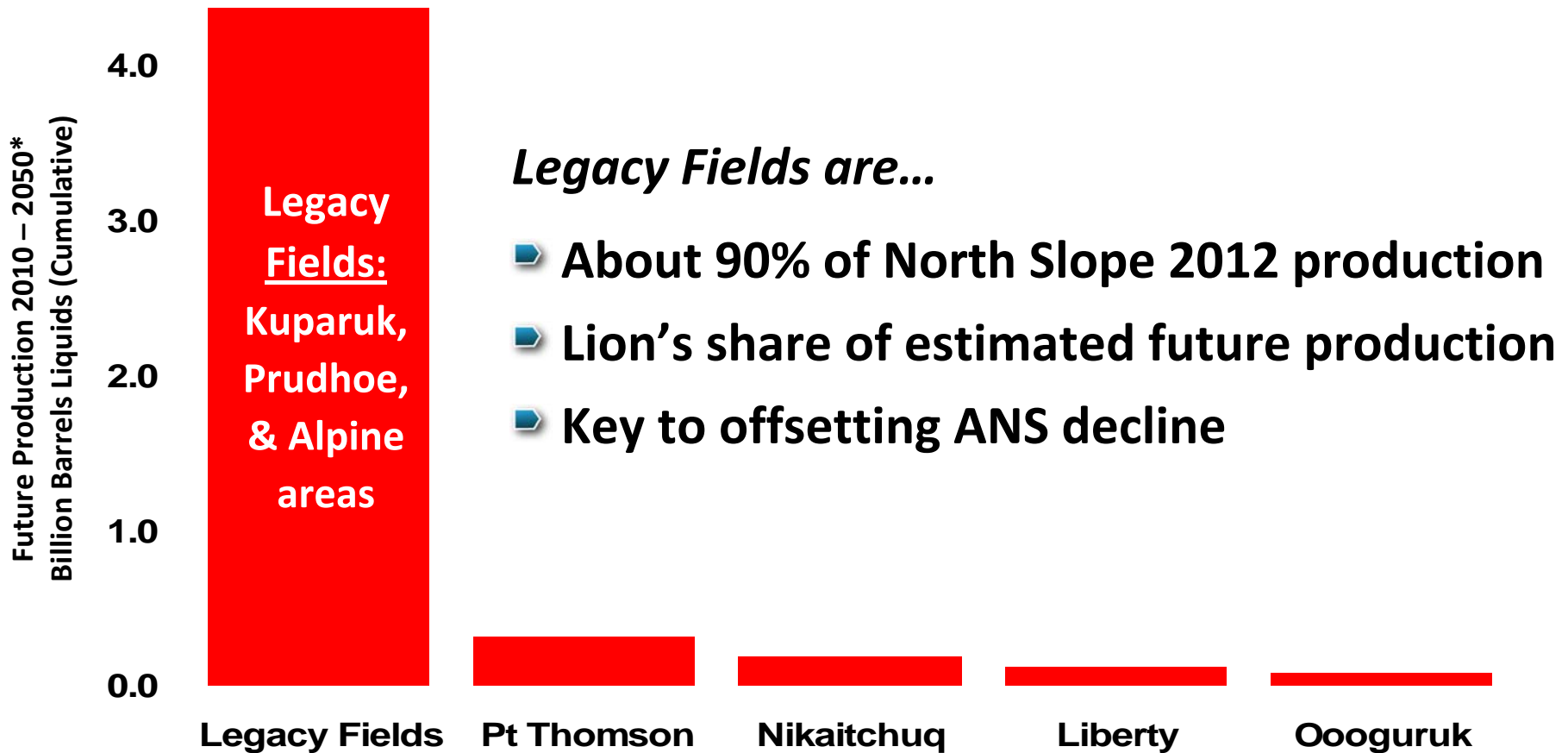
Topics

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

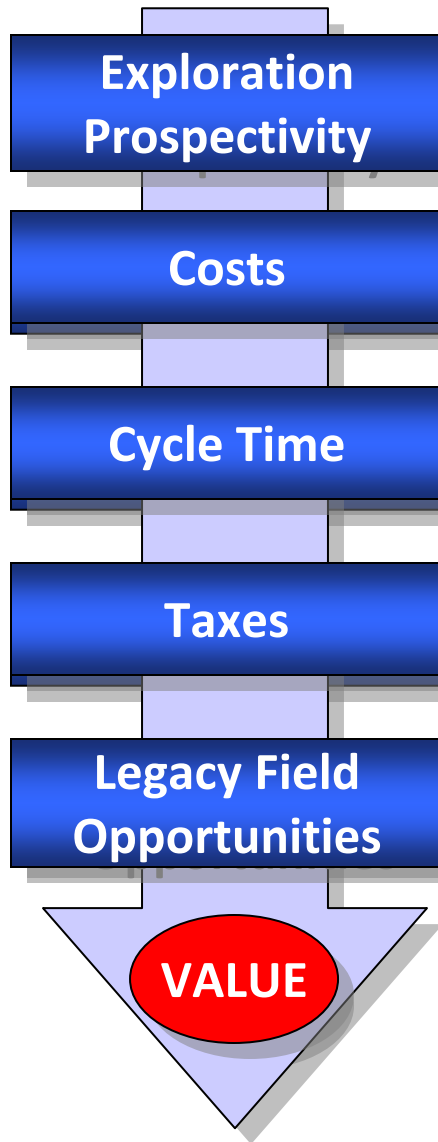
Alaska Decline Continues While Lower 48 Continues to Increase



Alaska Legacy Fields Still Provide Significant Opportunity



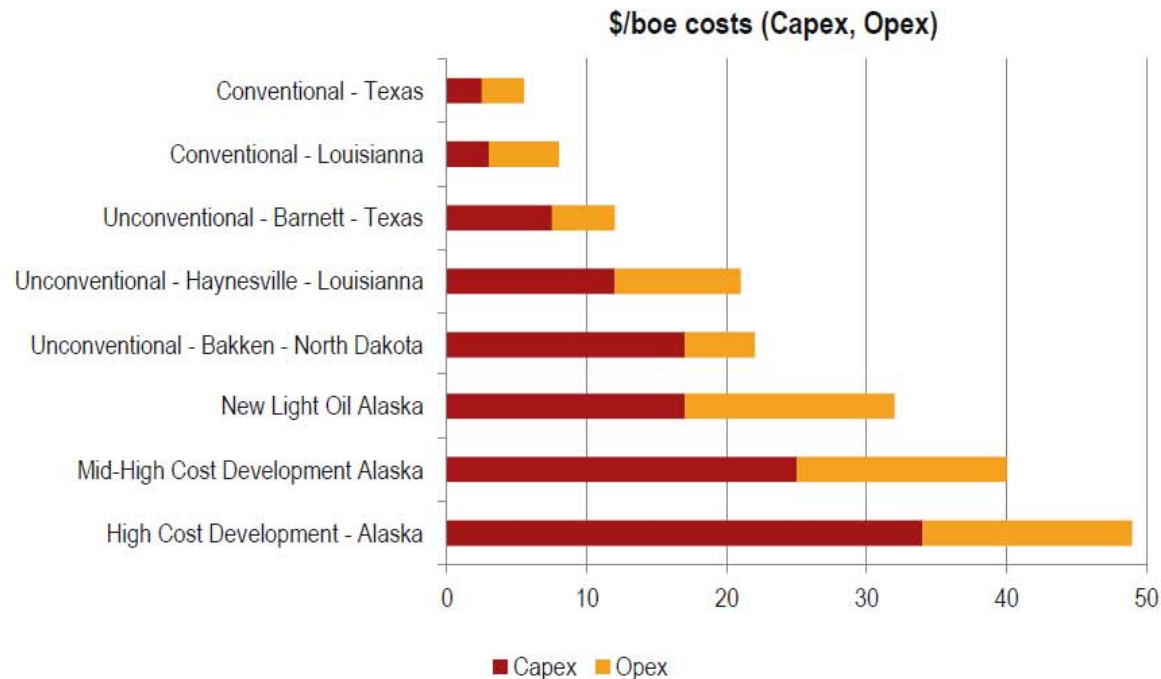
Investment Criteria: How Alaska Ranks



- 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'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
 - Isolated fault blocks, flank oil
 - Satellites and 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



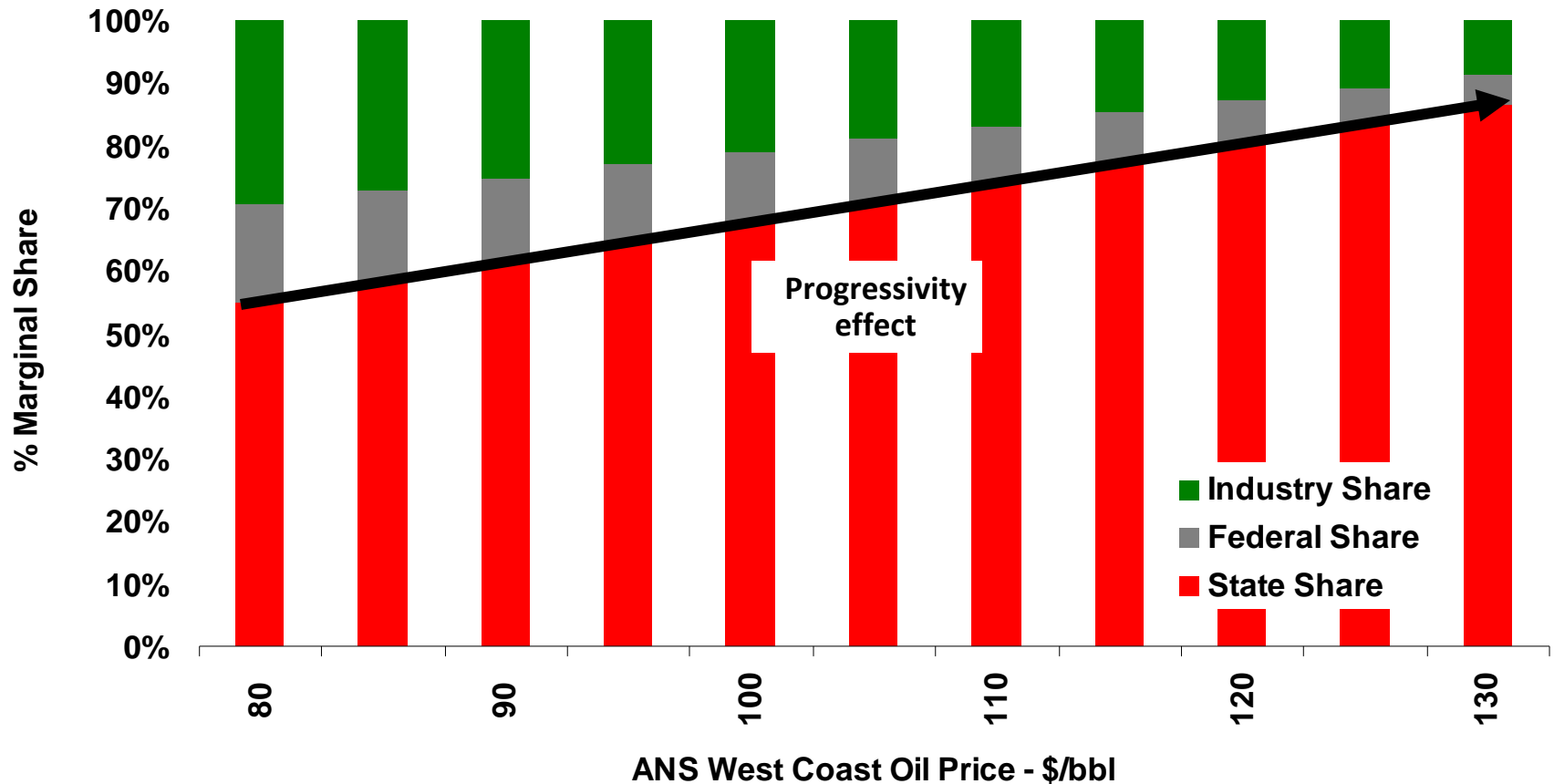
Initial Alpine Development



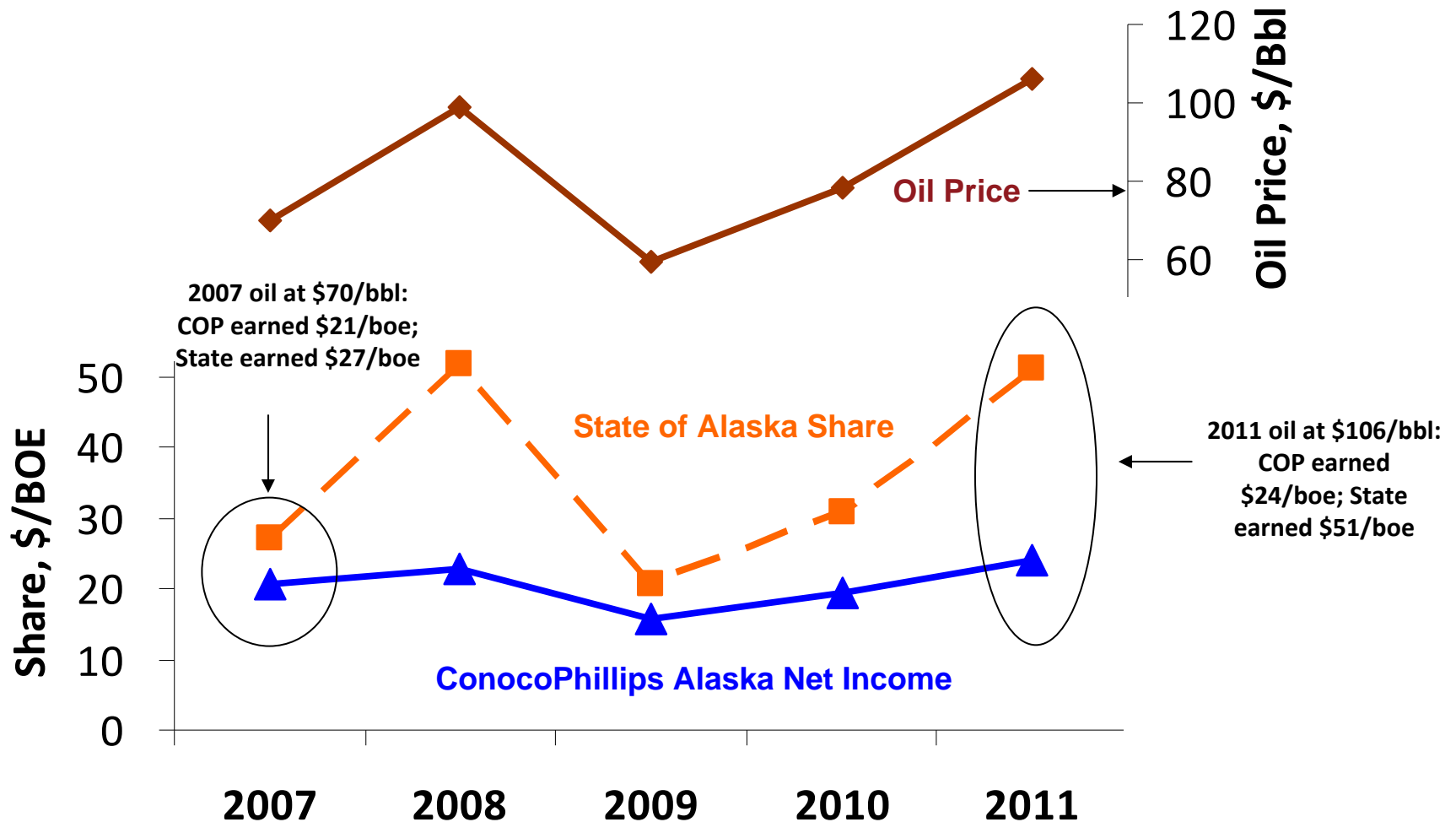
CD-5 Type Development

ACES Marginal Industry Share

Government and Industry Marginal Share in Alaska

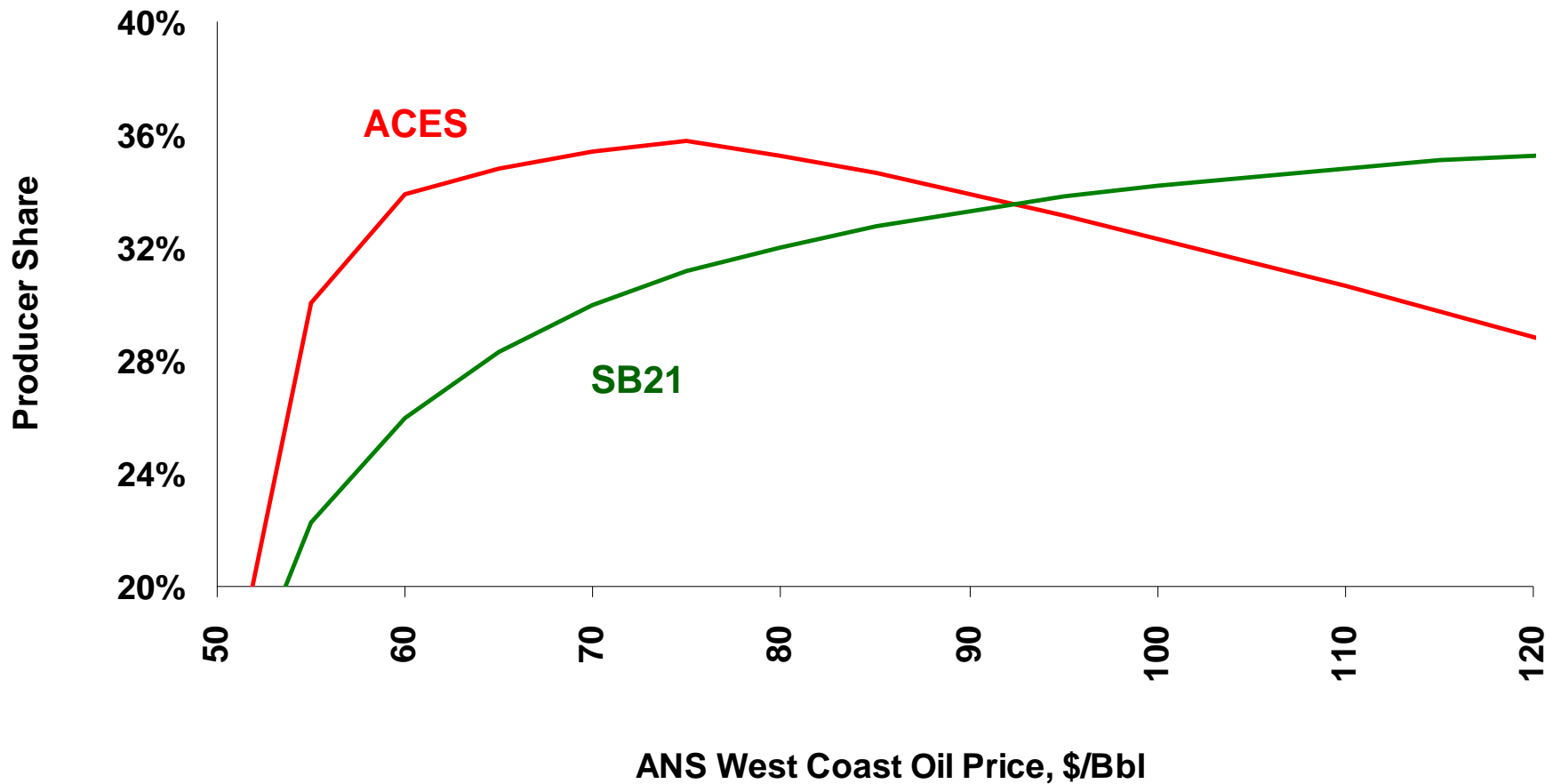


Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska



ACES progressivity takes the upside

Producer Share under SB21



Observations

▶ 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