

House Resources Committee

HB247

Scott Jepsen, VP External Affairs

Paul Rusch, VP Finance

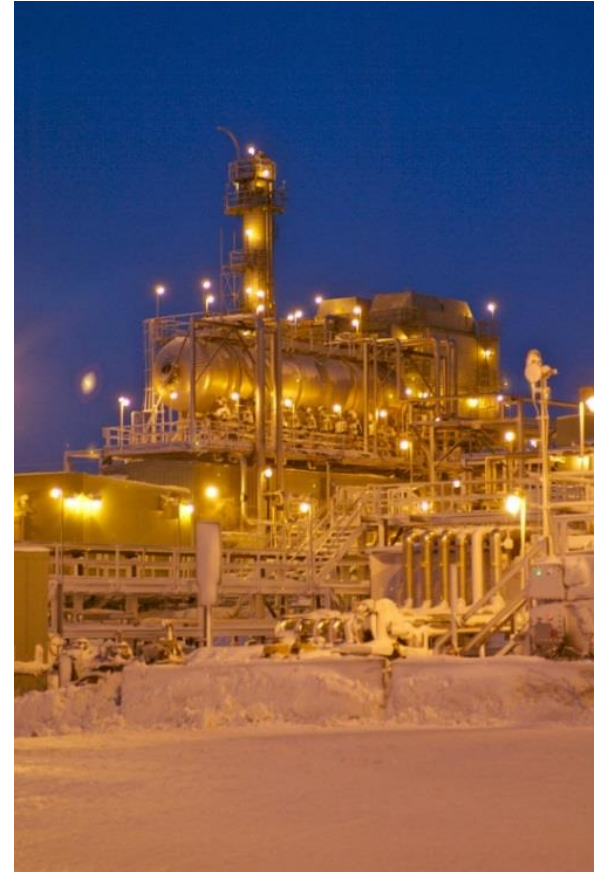
ConocoPhillips Alaska

February 29, 2016

- Look back since MAPA passed
- Economic Environment
- HB247 Assessment
- Observations

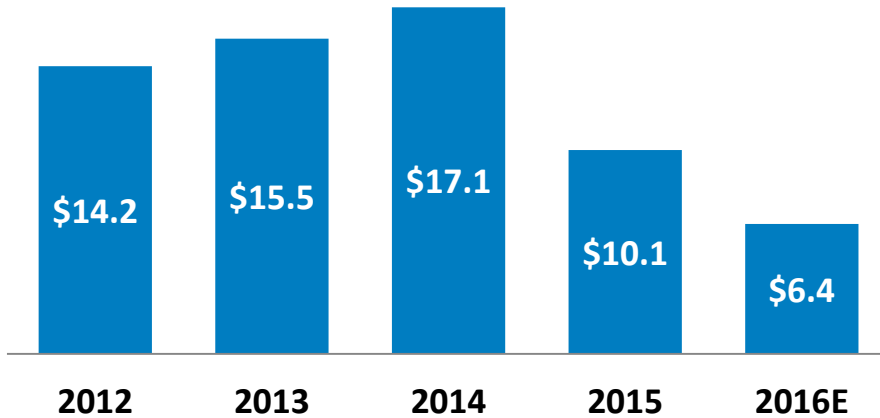
Activities Since Tax reform (MAPA) Passed

- **Added two rigs to the Kuparuk rig fleet**
 - Investment has decreased Kuparuk Unit decline
- **Two new-build rigs are on order – deliver 2016**
- **New Drill site at Kuparuk (DS 2S) – on stream October 12, 2015**
 - Estimated 8,000 BOPD peak production rate
 - About \$500 million gross cost to develop
 - 250+ construction jobs
- **Viscous oil expansion in Kuparuk (1H NEWS)**
 - About 8,000 BOPD gross, 100+ construction jobs
 - About \$450 million gross cost to develop
 - Under construction – first oil 2017
- **New development in NPRA (GMT1)**
 - Final investment decision made late 2015
 - About \$900 million gross cost to develop; peak gross rate ~30,000 BOPD
 - About 600-700 construction jobs
 - First oil 2018
- **Permitting underway for GMT2**
 - \$1+ billion gross investment
 - Will create 600-700 jobs
- **Active Exploration Program**
 - 2 wells drilled in 2014
 - Acquired GMT1 Seismic – 2015
 - Three wells planned for 2016 (NPRA)



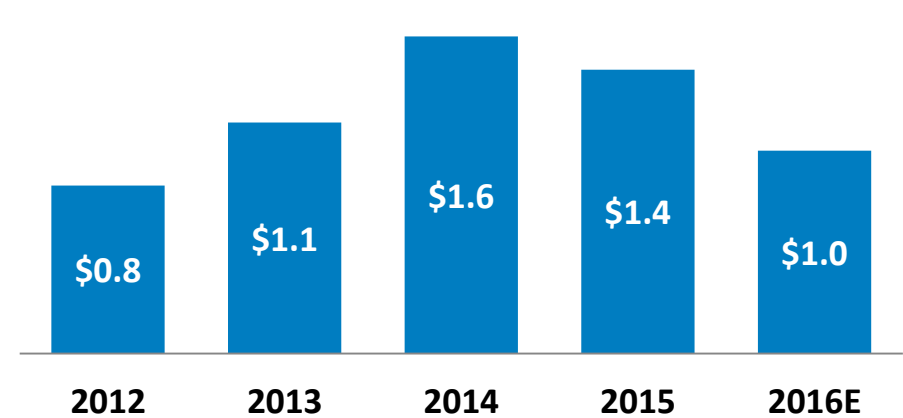
Capital Spending Trends

ConocoPhillips Capital Spend (\$B)



Total Company capital reduced 63% since 2014

ConocoPhillips Alaska Capital Spend (\$B)

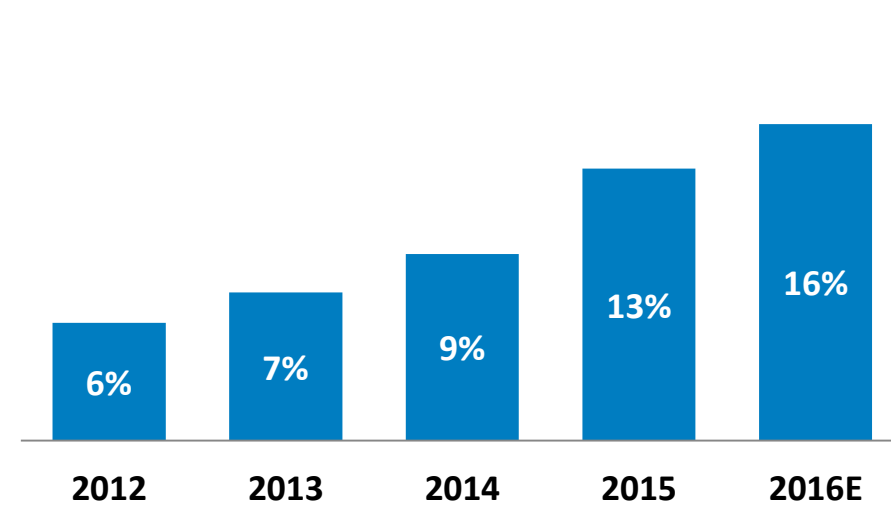


2016E Alaska capex ~ 25% higher than ACES years (~\$0.8 B/yr 2007-2012)

ANS WC Oil Prices (\$/bbl)

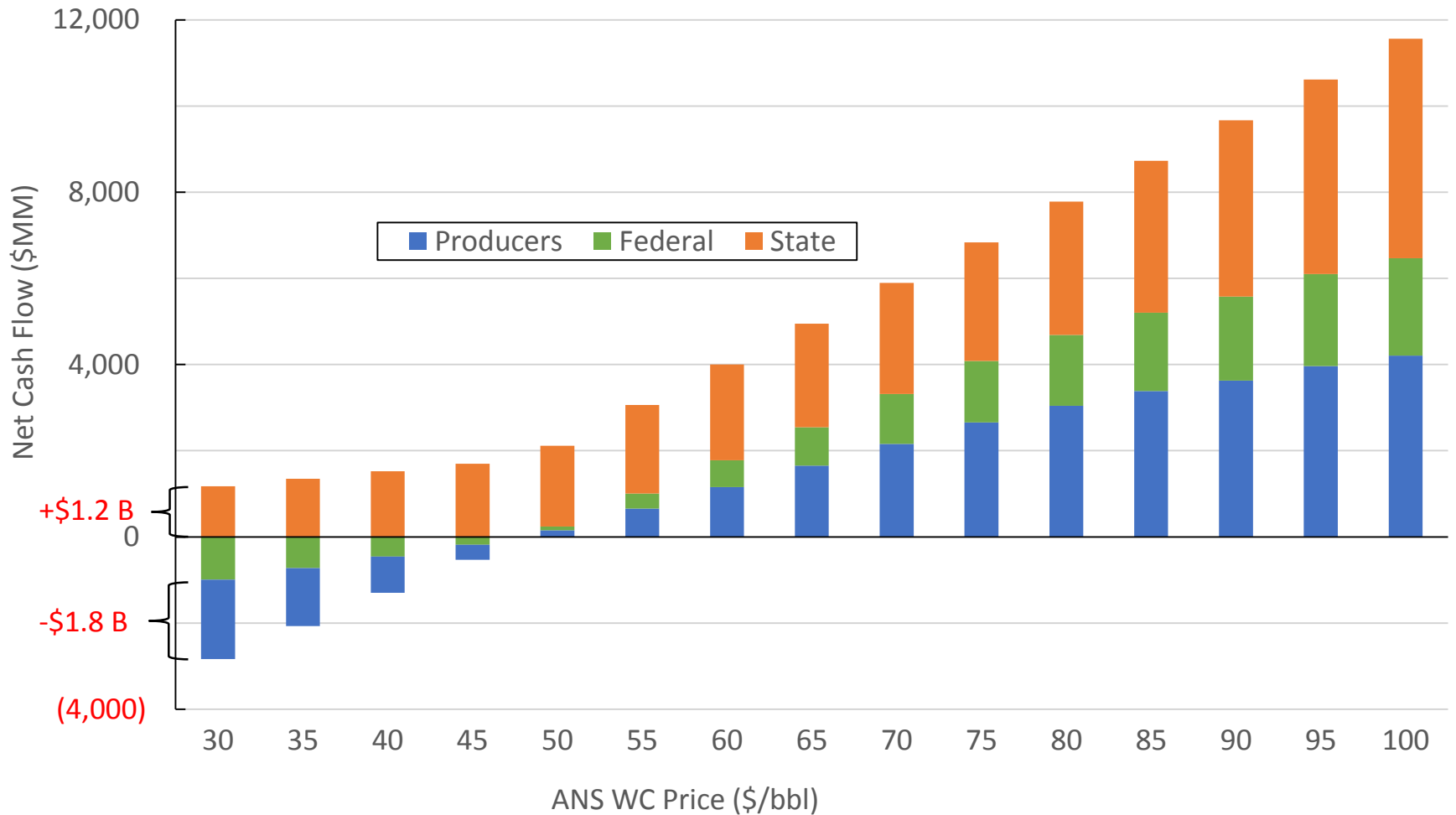


Alaska Capex as % of COP Total (%)



Alaska Producers Negative at Current Pricing

2017 FY Cash Flow - 2015 Fall RSB assumptions



State share shown excludes tax credits other than production tax credits

Key Concerns with HB 247

- Increase in minimum tax from 4% to 5%
 - 25% tax increase when industry in negative cash flow position
 - ConocoPhillips in excess of \$100 MM cash flow negative in 2015
- Hard minimum tax floor
 - Represents a potential tax increase when oil prices are low – moving in the wrong direction
- Various changes resulting in a tax increase
 - Increase in interest rate for under/over paid taxes
 - Monthly accounting for production tax credits vs current yearly approach
 - NOL calculations

- Increase interest rate on taxes due
 - Applies a punitive interest rate when payments are made in good faith and on-time
 - Current tax system leads to uncertainty on final tax amount due until audits have been completed
 - Pace of completing audits and appeals (6+ years) leads to excessive interest charges
- Restricting use of per barrel credits to the month earned moves towards a monthly tax - intent was full year basis
- Other Changes
 - Limiting deductions for calculating NOLs
 - Confidentiality

Observations

- Significant changes in tax law would validate concerns regarding State's ability to implement a stable oil and gas fiscal policy
 - Only 18 months since SB21 ratified by voters
 - Long-term investment requires durable, reasonable fiscal framework
- Increased tax burden will adversely impact ConocoPhillips current year and future investments
- HB-247 sends a negative message to investors