

## **House Finance Committee**

### **CSHB247**

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April 1, 2016

# Agenda

Look back since MAPA passed

Economic Environment

Key Concerns with Original HB247

Observations

### Activities Since Tax reform (MAPA) Passed

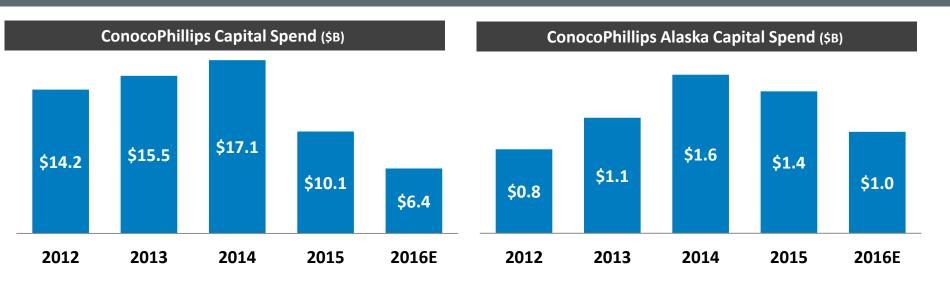
- Added two rigs to the Kuparuk rig fleet
  - Investment has decreased Kuparuk Unit decline
- Two new-build rigs are on order deliver 2016
- New Drill site at Kuparuk (DS 2S) on stream October 12, 2015
  - Estimated 8,000 BOPD peak production rate
  - About \$500 million gross cost to develop
  - 250+ 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

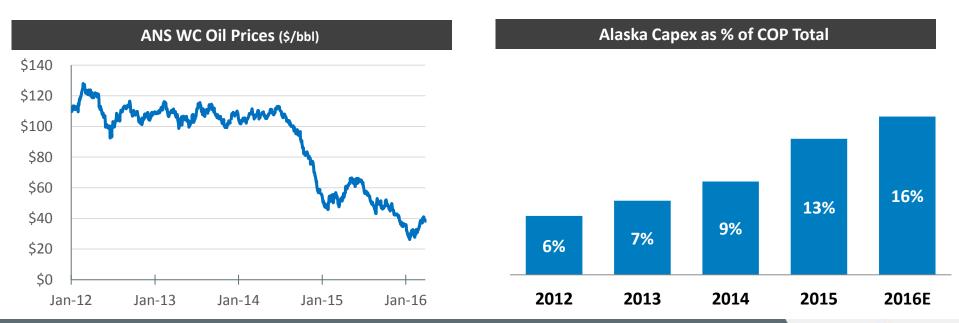
- 2 wells drilled in 2014
- Acquired GMT1 Seismic 2015
- Three wells in 2016 (NPRA)

### **Capital Spending Trends**

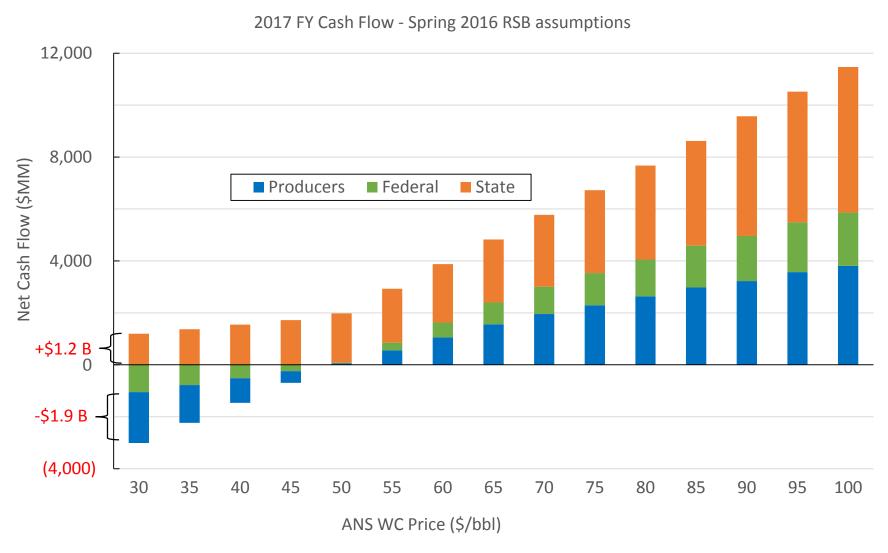


**Total Company capital reduced 63% since 2014** 

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



### North Slope Investors Negative at Current Pricing



State share shown excludes tax credits other than production tax credits

### Key Concerns with Original HB247

- 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
- Increase interest rate on taxes due
  - 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
- Confidentiality

### Observations

- Significant changes in tax law would validate concerns regarding
  State's ability to implement a stable oil and gas fiscal policy
  - Only 19 months since SB21 ratified by voters
  - Long-term investment requires durable, reasonable fiscal framework
- CSHB247 an improvement over original bill
- Any changes that increase tax burden/costs will adversely impact ConocoPhillips current year and future investments