House Rules Committee

CSHB247(RLS)\D

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Agenda

- Look back since SB21 passed
- Economic Environment
- Key Concerns with CSHB247(RLS)\D
- Observations

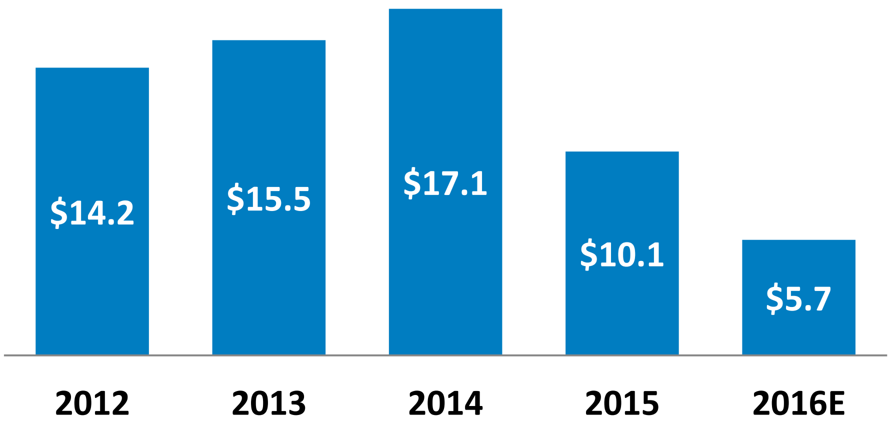
Activities Since Tax reform (MAPA) Passed

- **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 during construction
- **Active Exploration Program**
  - Two wells drilled in 2014
  - Acquired GMT1 Seismic – 2015
  - Three wells in 2016 (NPRA)

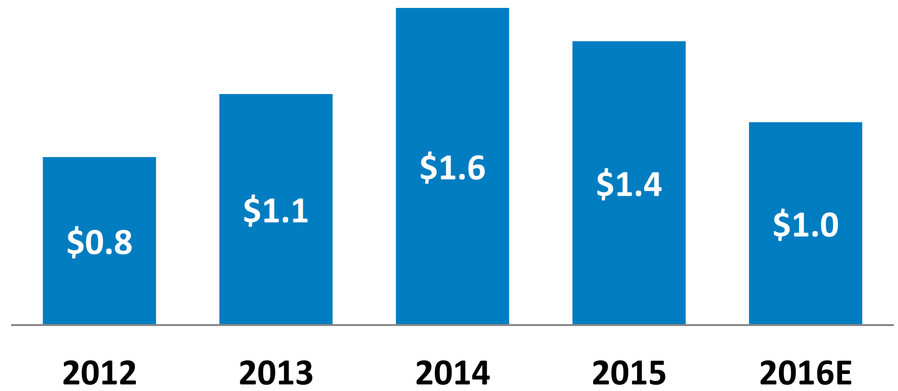
Capital Spending Trends

ConocoPhillips Capital Spend ($B)



Total Company capital reduced 63% since 2014

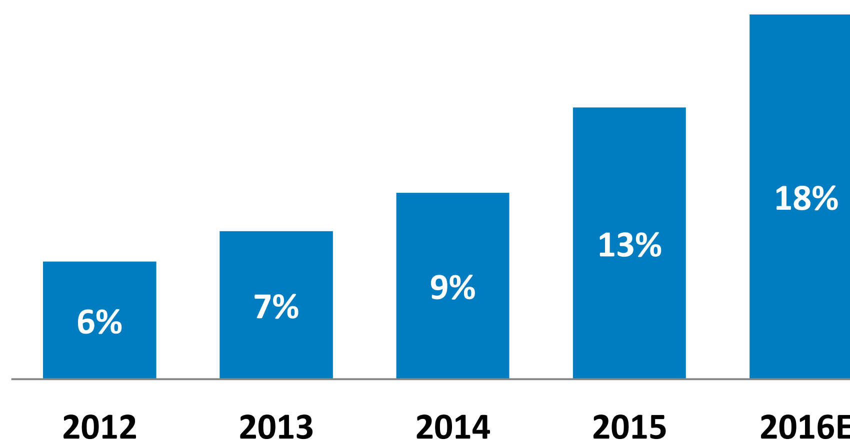
ConocoPhillips Alaska Capital Spend ($B)



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

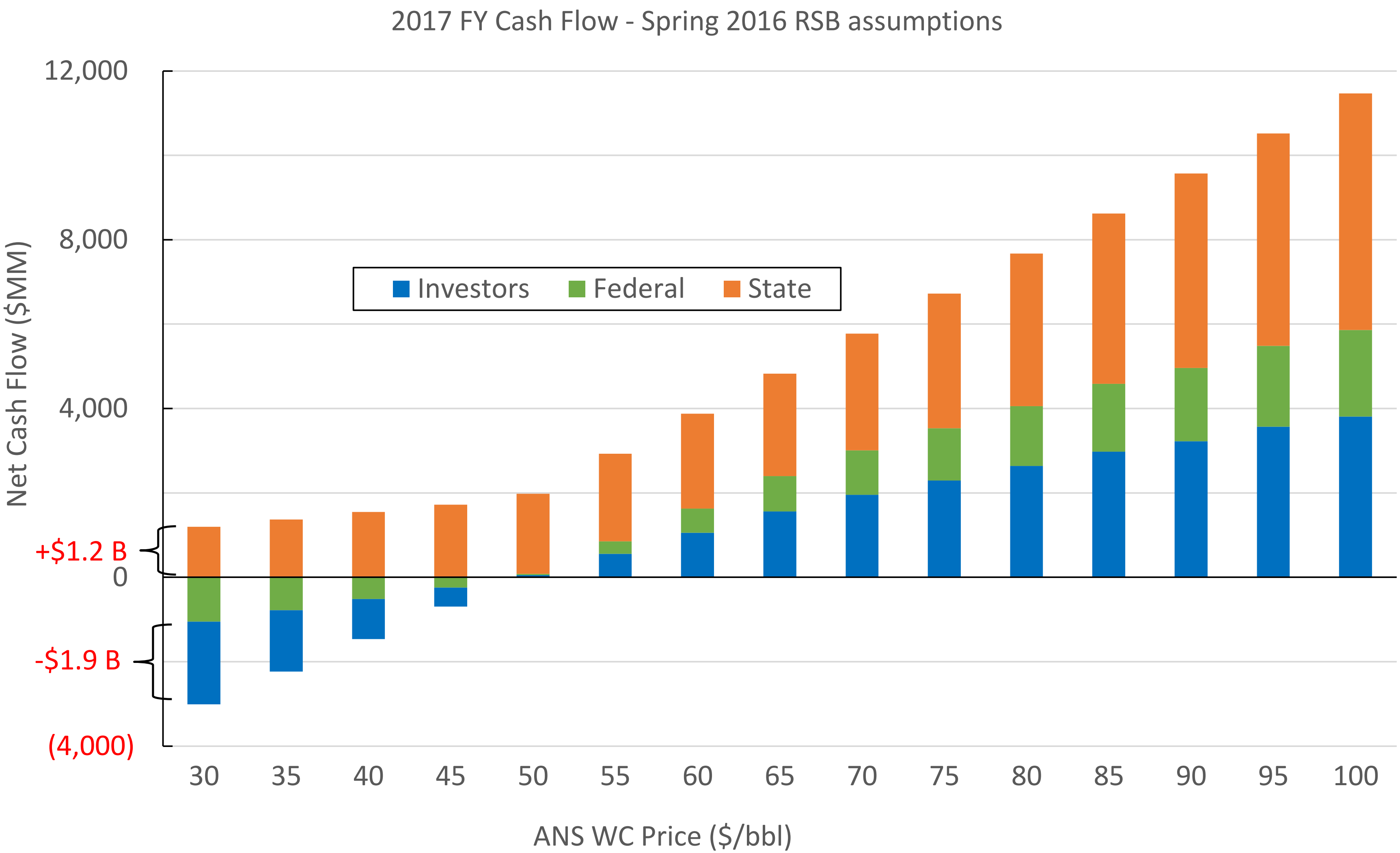
ANS WC Oil Prices ($/bbl)

Alaska Capex as % of COP Total



Sources: ConocoPhillips 10Ks and Alaska DOR website

North Slope Investors Negative at Current Pricing



State share shown excludes tax credits other than production tax credits

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Tax Credits and Applicability to COP

Tax Credit Type	Total FY17 estimate, $MM	Total reimbursable	COP reimbursement	Total used against severance tax liability	COP used against severance tax liability
Net operating loss	452	370	**0 – Not eligible**	82	**0**. Possible for calendar year '16, but self correcting.
Exploration	76	76	**0 – Not eligible**	0	Possible for 2016. Expires this year.
Small producer	27	NA	NA	27	**0 – Not eligible**
Per barrel production credit	16	NA	NA	16	**Depends** upon oil price and expenditures.
Cook Inlet and Middle Earth	337	326	**0 – Not eligible**	11	**0**. Assumes sale of Tyonek. Kenai LNG not deductible.
Total	908	772	**0 – Not eligible**	136	Potential for an NOL. Dependent upon oil price and expenditures.

- In 2015, COP incurred obligations to the SoA of $665MM. Negative cash flow in excess of $100MM.
- In 1Q 2016, incurred obligations of $77MM. Cash flow approximately -$100MM.

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 & Q1 2016
- 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 credits to the monthly installment contradicts the principle of an annual tax levy
- Taxpayer confidentiality

View on Current Draft CSHB247 (RLS) \ D

- NOL tax credit – extend through 2019 consistent with small producer tax credits
  - Not anticipating long-term loss position
- Interest rate increased without addressing underlying audit issues
- GVR 10-year time limit potentially makes new oil developments less competitive
- Disclosure requirements reasonably restricted to reimbursable credit related information

Observations

- CSHB247(RLS) \ D an improvement over original bill

- Any changes that increase tax burden/costs could adversely impact ConocoPhillips current and future investments

- Significant changes in tax law would validate concerns regarding State’s ability to implement a stable oil and gas fiscal policy
  - Only 20 months since SB21 ratified by voters
  - Long-term investment requires durable, reasonable fiscal framework