

# House Finance Committee

## CSHB111

Scott Jepsen, VP External Affairs and Transportation

Paul Rusch, VP Finance

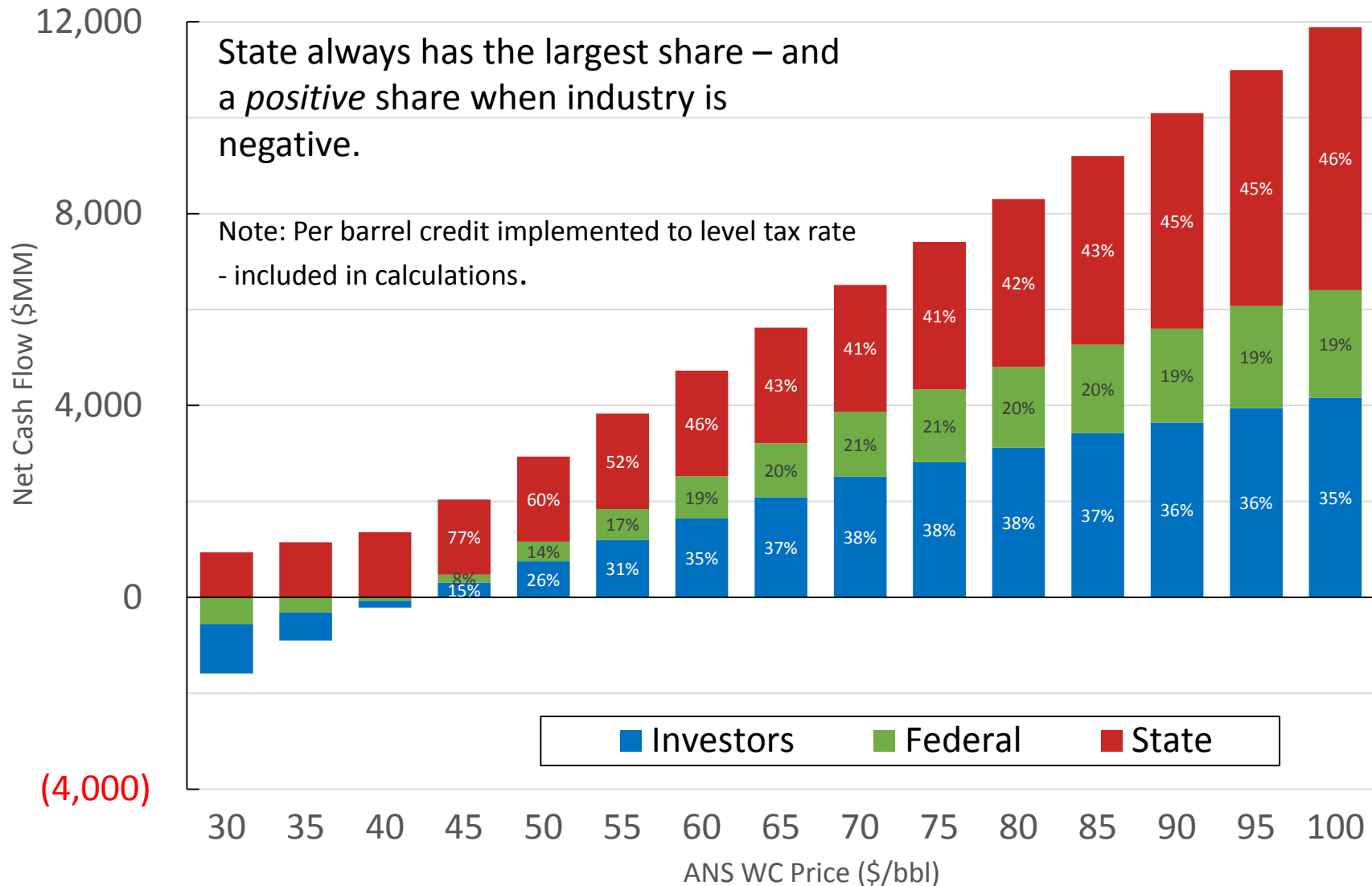
**ConocoPhillips Alaska**

March 22, 2017

# SB21 Has Improved Alaska's Investment Climate

- Basic tax structure of SB21 has placed Alaska in a competitive position
  - Flatter tax rate over a broad range of prices
  - Secures revenue to the State at lower prices
- Increased investment resulting in jobs, production and improved State revenue outlook
- Increased competition from the unconventional opportunities in the L48 have made it even more important that Alaska not increase its cost structure through tax increases

# FY 2017 Producer Share vs ANS WC - Fall 2016 RSB Assumptions



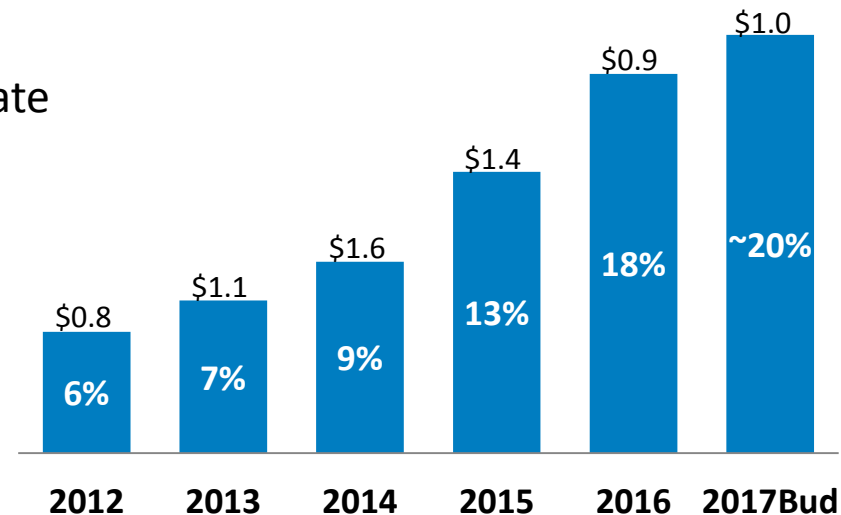
State share shown excludes tax credits other than per barrel tax credits.

# Activities Since Tax Reform (SB21) Passed

- Added two rigs to the Kuparuk rig fleet, 2013-2014
- Two new-build rigs delivered in 2016
  - Doyon 142 and Nabors CDR3
  - 4 to 5 rigs at Kuparuk/Alpine during 2016
- Sanctioned ERD Rig in 2016
- North East West Sak – DS1H
- New drill site at Kuparuk (DS 2S) – on stream a year ago
- Sanctioned 18 additional wells at Alpine CD5
- Sanctioned Greater Mooses Tooth 1 in 2015
- Permitting Greater Mooses Tooth 2
- Willow discovery and acquisition of 737,000 State and federal acres in December 2016 lease sale
- Significant other industry investment



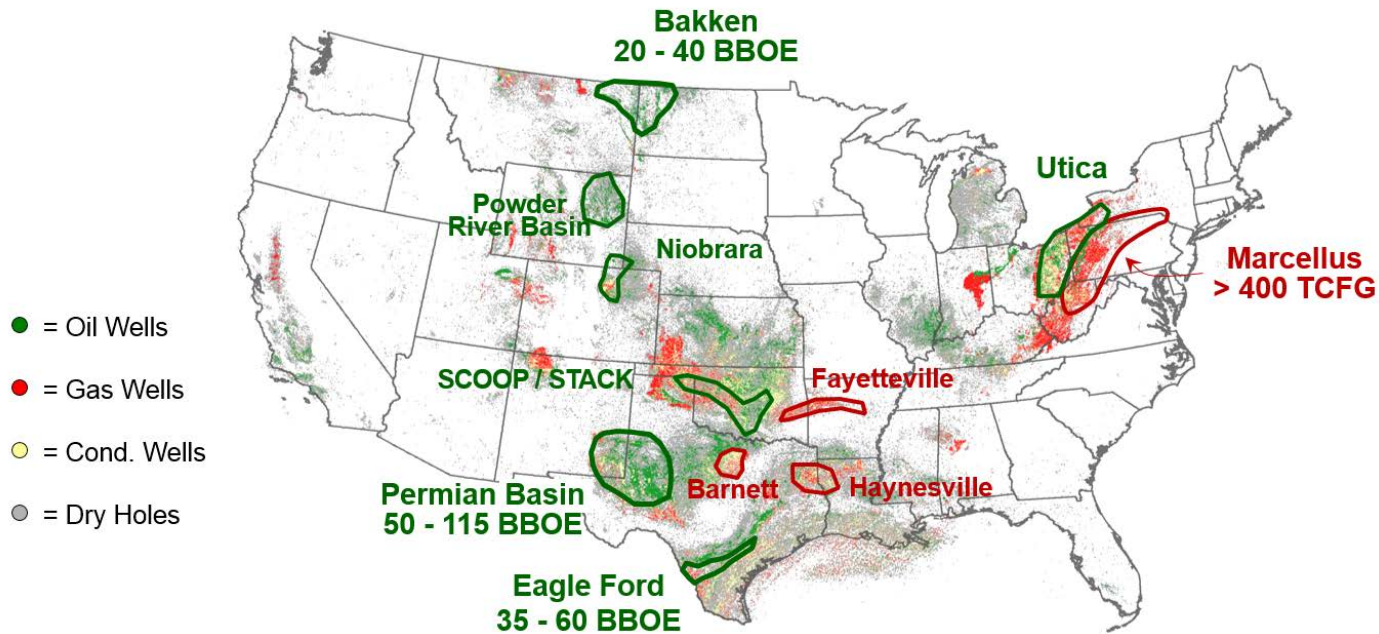
Alaska Capex as % of COP Total (\$B)



**North Slope oil production grew 2% in 2016, the first growth in 14 years.**

Source: Alyeska Pipeline Service Company Press Release December 30, 2016

# Significant Investment Competition



- Oil and gas price environment remains challenging for producers.
  - Less capital available for investment.
  - Companies allocate capital to lowest cost-of-supply projects.

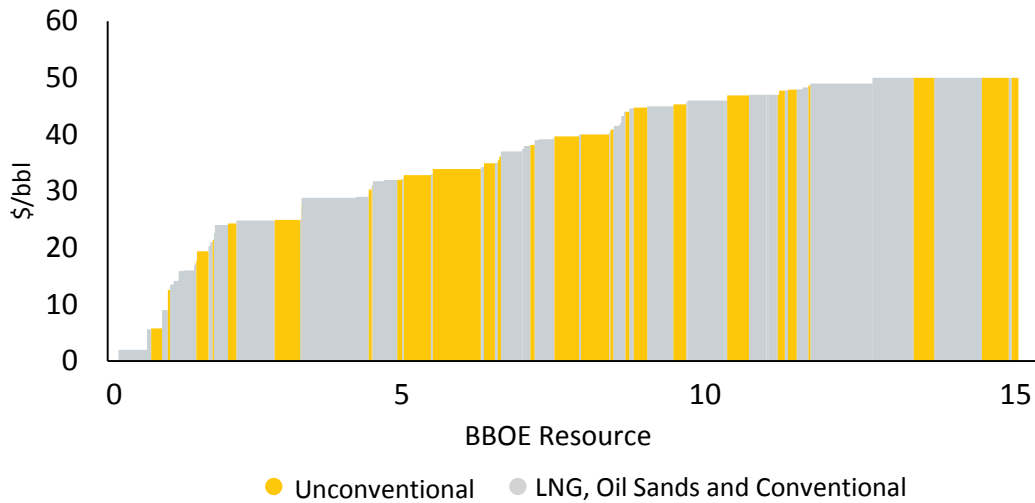
- Alaska must compete against unconventional plays that:
  - Are cheaper to develop and operate;
  - Are closer to market;
  - Have fewer regulatory hurdles.

***Alaska is still opportunity rich, but so is the Lower 48. Alaska's tax policy will play a role in determining if Alaska can continue to attract investment.***

Map shows wells drilled since the start of the 20<sup>th</sup> century; well locations from the US Geological Survey; resource estimates based on publicly available sources and ConocoPhillips estimates.

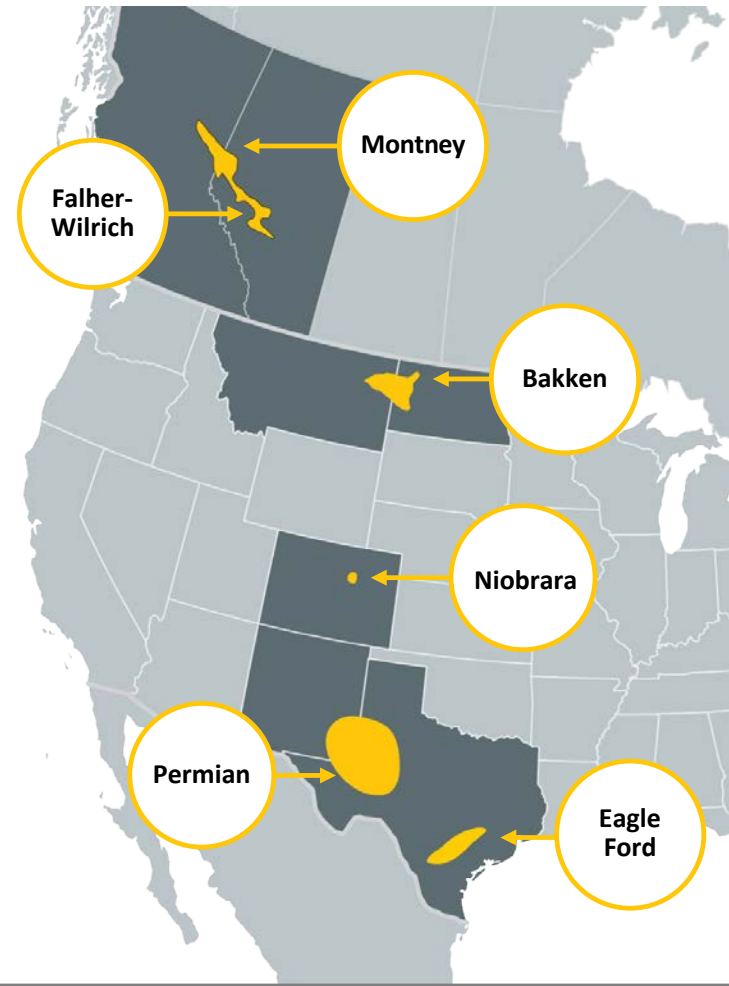
# Unconventional: Top-Tier Resource Base and Growing<sup>1</sup>

Cost of Supply (\$/bbl)



- Flexible, short-cycle investments with low execution risk
- High-margin production drives cash flow growth
- Prudent development pace maximizes value

**~7 BBOE RESOURCE**  
~\$35/BBL AVERAGE COST OF SUPPLY



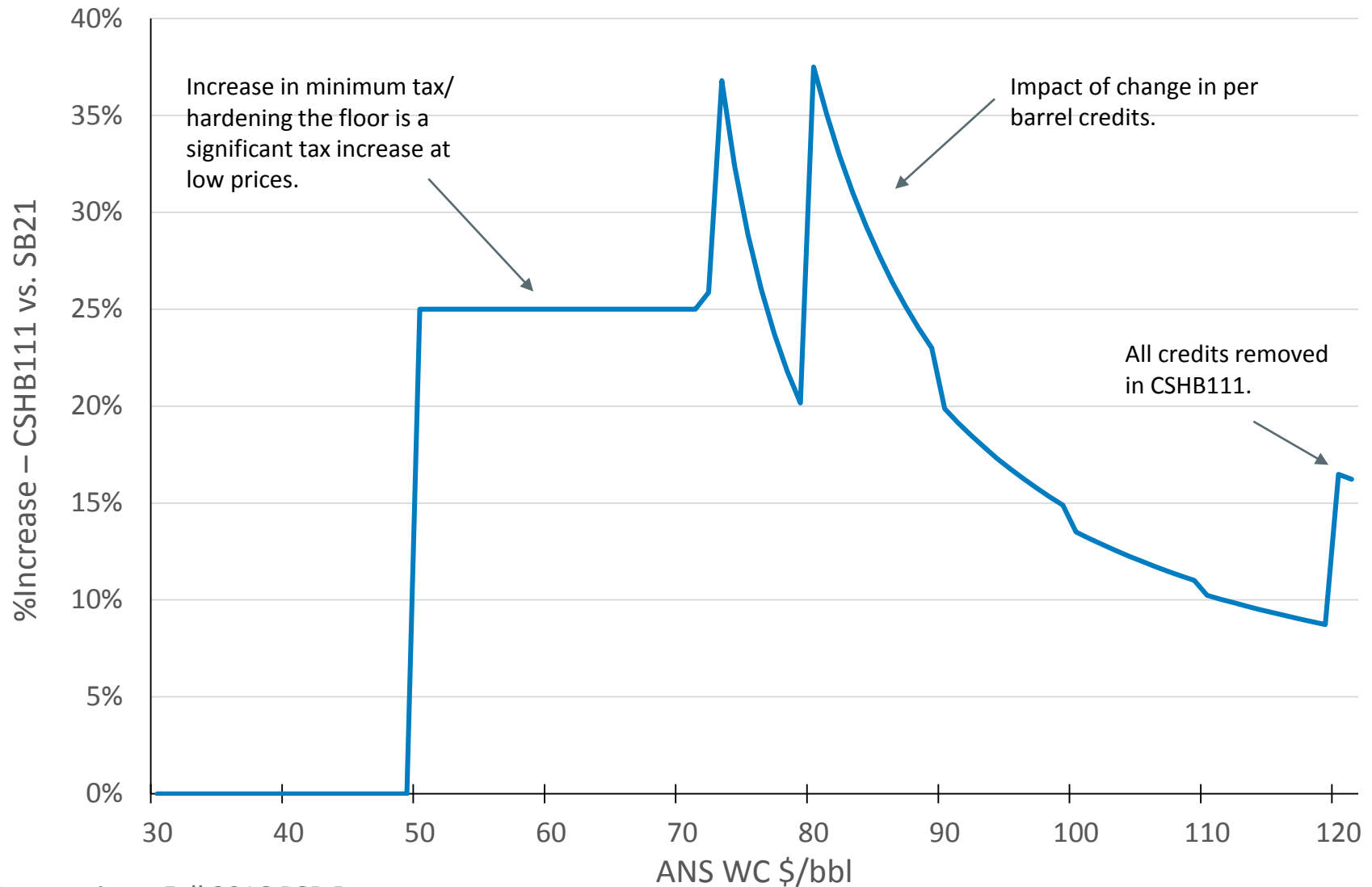
<sup>1</sup> Source is ConocoPhillips 2016 Analyst & Investor Meeting (November 10, 2016)

# CSHB 111 – Significant Change in the Cost of Business

- Minimum tax rate increase (4% to 5%) is a 25% tax increase
- Per barrel tax credit reduction
  - Fundamentally changes tax rates
  - Significant tax increase
- Interest change punitive – State largely controls the pace of audits
- “Migrating” tax credit change
  - Creates a monthly tax
  - Inconsistent with overall tax structure
- Tax information disclosure provision bad policy
- NOL pre-approval unworkable

**Increasing taxes makes Alaska less competitive**

# CSHB111 Represents a Significant Increase in Tax Rate



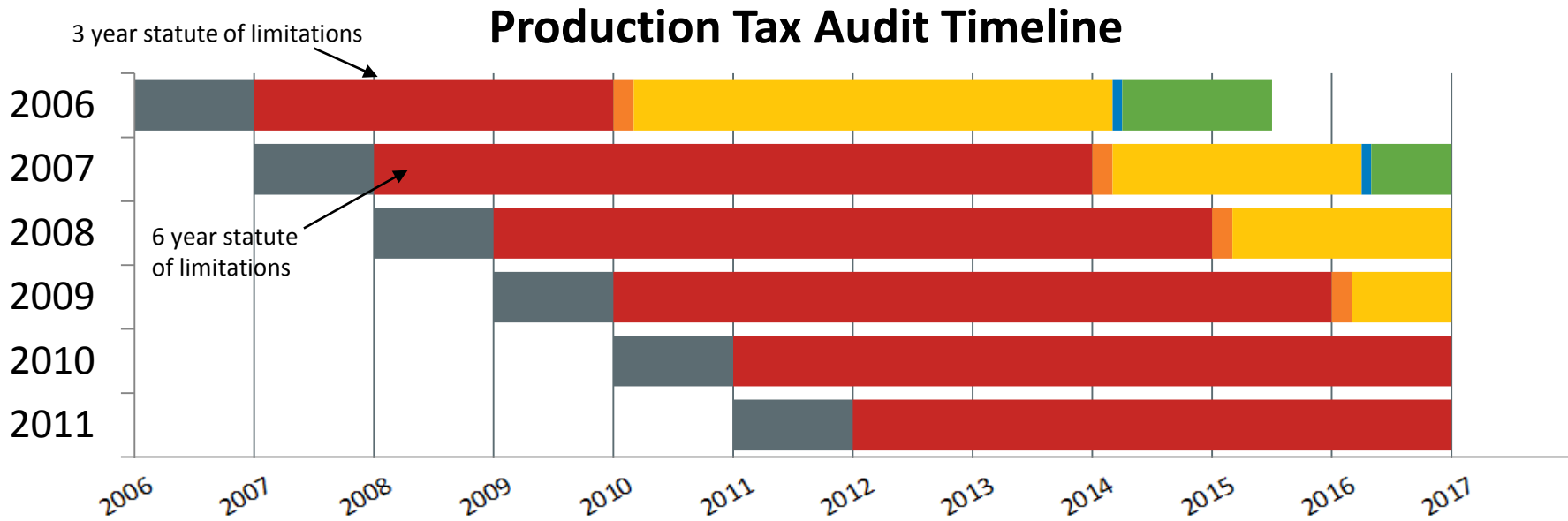
Assumptions: Fall 2016 RSB Data



# “Migrating” Per Barrel Tax Credits

- Production tax is imposed annually
- Estimated payments are made monthly, an annual tax return is filed in March
- Proposed change for tax credits moves toward a monthly tax
  - Increases the complexity of an already complex tax
  - Creates an imbalance in an annual tax system – all other components are calculated on an annual basis
- No such thing as “migrating” credits – the tax system was meant to be on an annual basis

# Basis For Interest Change Unsupported



- Tax Year
- Audit – ACES regulations not finalized until 2010
- Informal Appeal
  - 60 days to file from Notice & Demand
  - Appeals Officer assigned (w/in Dept.)
- Informal Decision
  - No deadline for decision
  - Decision is issued
- Formal Appeal
  - 30 days to file appeal
- Hearing
  - Office of Administrative Hearings
  - Assigns Administration Law Judge
  - No deadline for decision
  - Decision is issued

**The pace of this timeline is largely determined by the State**

# Other Concerns

- Tax policy should be focused on the aggregate, not individual tax payer information
  - Disclosure of individual tax return information may violate SEC, anti-trust, or other regulations
  - Puts recipients at risk of violating federal law
  - Confidentiality agreements are difficult to enforce – provision provides for broad distribution
- Pre-approval of lease expenditures (NOLs) could effectively require advance approval of production, prices, and all expenses
  - Could create significant bureaucracy
  - Results in uncertainty / instability regarding tax treatment
  - No legislative guidance regarding implementation

# Summary

- CSHB111 represents a significant increase in the base tax structure in an already high cost environment – moves Alaska in the wrong direction
- CSHB111 provisions regarding NOLs and individual tax disclosure requirements will create additional barriers to doing business in Alaska
- SB21 is working – it has stimulated investment resulting in jobs, production, and increased State revenue – let it continue to work