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ConocoPhillips Added About 738 Million Barrels To Reserves In 2011

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HOUSTON – ConocoPhillips (COP) said it added about 738 million barrels of oil equivalent to its proved reserves in 2011, allowing the oil giant to more than replace oil reserves lost from production.

Acquisitions and dispositions reduced reserves by 45 million of oil equivalent, primarily from the dilution of the company's interest in an Australia Pacific liquefied natural gas project and sale of North American natural gas assets, the company said in a press release.

Reserves and reserve-replacement ratios are considered two of the oil-and-gas company's most significant assets and are used by Wall Street analysts to measure a company's performance.

Conoco said its production for 2011 is expected to be 617 million barrel oil equivalent per day, or 1.69 million barrel of oil equivalent per day, including fuel gas. The company also expected to end 2011 with 8.4 billion barrels of oil equivalent of proved reserves.

It is positive Conoco replaced its production, but until it files its annual report with details about the mix of oil and gas of the added reserves it is early too early to read much into the company's announcement, say Alan Good, an analyst with Morningstar.

Conoco, the third-largest U.S. oil company by market value, said it expects to file its 10-K with the Securities and Exchange Commission in late February.

Houston-based Conoco said 2011 reserves were added across the portfolio, including at the company's Canadian oil sands properties at Christina Lake and Surmont.

The company said it also added reserves in liquids-rich U.S. shale areas, such as Eagle Ford and Bakken; in the North Sea, through expansion projects in the Ekofisk, Eldfisk and Clair developments; and in Malaysia, with sanctioning of the Kebabangan project and ongoing development of the Gumusut Field. Reserve additions were also delivered across the company's North American conventional asset portfolio, the company said.

Conoco is in the midst of a three-year repositioning aimed at shoring up finances and making itself more attractive to investors. The plan includes the sale of \$15 billion to \$20 billion in assets, large-scale share buybacks and the spin off of its refining arm, expected to be completed this year.

The company is set to report fourth-quarter earnings Wednesday.

Shares were recently down 0.9% at \$70.50. As of Friday's close, the stock was down 5.4% over the past six months.

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A tale of two ConocoPhillips presentations with Alaska comments

by Dermot Cole/ cole@newsminer.com

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FAIRBANKS — The Make Alaska Competitive Coalition has a PowerPoint presentation on its website from Marianne Kah of ConocoPhillips titled “Alaska’s Role in World Energy Supplies.”

The contents are in keeping with the message the coalition repeats in its ad campaign — Alaska should cut oil taxes by billions of dollars or else.

On pages 20 to 22 of her presentation, Kah, the chief economist of the company, has slides on the general topic of “A Tale of Two States,” showing how oil production and GDP growth are climbing fast in North Dakota, but oil production is falling in Alaska and GDP growth is not as high in Alaska as North Dakota. Job growth in Alaska is not as high as North Dakota, it says.

The Jan. 6 presentation also has a slide that says, “Alaska Progressivity — Least Attractive Among OECD Countries at Current Prices,” while the next says, “And its marginal take is one of the Highest Globally.”

The tax rate is “limiting investment and production in Alaska,” Kah concludes. The state has the “highest cost structure” in the portfolio of ConocoPhillips investments.

“Alaska has the highest tax rate of any of the developed countries that ConocoPhillips might operate in. And of course that tax rate goes up substantially as the oil price goes up. So there is no upside for investment in Alaska,” the coalition quotes Kah as saying.

The one big plus mentioned in the presentation is the “Strong rule of law/political stability” and the “permitting/regulatory environment.”

The overall thrust was that these aren’t the best of times in Alaska.

But ConocoPhillips executives have been known to say that these aren’t the worst of times in Alaska for the third largest energy company in the U.S.

In a third-quarter conference call last year, the company CFO referred to Alaska as one of the places with “higher than average margins.”

And on March 23, 2011, another executive of ConocoPhillips offered remarks that were anything but gloom and doom.

One slide from the March presentation to stock analysts said the “strong cash margins” in Alaska are noteworthy and that future growth will be driven by in-field drilling, Western North Slope satellite fields, unlocking the 1.7 billion barrels of heavy oil reserves the company has and doing something about natural

gas.

Granted, the presentation covered the company's diverse worldwide operations and highlighted many profitable prospects, including North Dakota and points south, but there was no mention made of Alaska tax rates stifling investment.

Greg Garland, the senior vice president of exploration and production in the Americas, said this about Alaska as part of a discussion about future growth for the company, according to the transcript:

"Talk about Alaska, we like Alaska. We've been in Alaska a long time. We're the largest producer in Alaska. Last year 240,000 BOE (barrel of oil equivalent) a day, strong cash margins in this area and we have a significant infrastructure position, we've built an extensive operating capability. We have a strong culture of safety and environmental excellence in Alaska and we think we have a strong competitive advantage here. Reserves at 1.6 billion BOE resources, 5.7 billion BOE. We'll invest \$350 million in exploitation this year, all at very good returns. We're targeting sanction of our West Alpine project which is CD-5 if we can get the permits this year. And longer term, there's other opportunities. West of Alpine, we've got the heavy oil that we've talked about. We'd like to take a look and see what's in the Chukchi Sea if we can get permits to drill. And then, longer term is North Slope gas. ..."

Garland is not an unimportant figure in the giant oil firm. He is in line to become the chairman and CEO of the new Phillips 66, the downstream company that is being spun off this year to become a stand-alone corporation.

In every walk of life, speeches and presentations are tailored to appeal to the audience that the speaker wants to reach and accomplish the goals the speaker has in mind. There is a selection process about what to leave in and what to leave out.

You have one set of goals when the idea is to build support for a local tax cut that will make Alaska operations more profitable. You have another set when you are talking to analysts who follow the company's fortunes on a global basis.

It's a normal process, one that makes it hard to unravel situations where complex tales are presented as simple truths.

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GRAND OPENING: Hot Springs Gas, the new store on Chena Hot Springs Road, caps its grand opening today with a snowmachine drawing at about

1:30 p.m.

Retired farmer Henry Gettinger is expected to be on hand to draw the winning name.

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Oil company executive says Alaska offers 'strong cash margins'

by dermotcole

04.08.11 - 08:23 am

Company presentations to stock market analysts invariably stick to the sunny side of the street.

But policy makers in Alaska operating with eyes wide open instead of half-closed need to have a working knowledge of the international self-portraits offered by the oil companies to these specialized audiences.

On March 23 in New York, eight leaders of ConocoPhillips held their annual meeting and conference call with 16 Wall Street analysts, competitive critics who are hired to make informed judgments about profit and loss potential. The account makes for informative reading.

The news coverage about the meeting dealt largely with the company plan to sell \$5 billion to \$10 billion worth of "noncore assets" over the next two years, using most of the money to buy back \$10 billion in stock and invest in its business. Over the last two years, the stock of ConocoPhillips is up more than 80 percent, beating BP and ExxonMobil, the New York Times said.

While the most glowing language in the presentation was about such prospects as the Eagle Ford shale deposits in East Texas, the Permian Basin in West Texas, ("The gift that keeps on giving"), North Dakota, the Alberta tar sands, Australia and other locations, the ConocoPhillips Alaska situation was also given a positive spin.

The company said the Alpine West (CD5) project is expected to go ahead in 2013-2015 along with the Lookout (CD6) project. Alaska North Slope natural gas and the Ugnu heavy oil resources are among the projects set for 2016 or later. There was next to nothing said about onshore exploration in Alaska.

Future growth in Alaska will be driven by "in-field drilling opportunities, Western North Slope satellites, unlocking heavy oil potential and ANS (Alaska North Slope) gas commercialization," a slide shown to analysts said. The Alaska drilling program for 2011 is expected to increase somewhat over 2009 and 2010 with a cost approaching \$340 million or so, according to the slide.

Greg Garland, the senior vice president of exploration and production in the Americas, said this about Alaska:

Talk about Alaska, we like Alaska. We've been in Alaska a long time. We're the largest producer in Alaska. Last year 240,000 BOE (barrel of oil equivalent) a day, strong cash margins in this area and we have a significant infrastructure position, we've built an extensive operating capability. We have a strong culture of safety and environmental excellence in Alaska and we think we have a strong

competitive advantage here. Reserves at 1.6 billion BOE resources, 5.7 billion BOE. We'll invest \$350 million in exploitation this year, all at very good returns. We're targeting sanction of our West Alpine project which is CD-5 if we can get the permits this year. And longer term, there's other opportunities. West of Alpine, we've got the heavy oil that we've talked about. We'd like to take a look and see what's in the Chukchi Sea if we can get permits to drill. And then, longer term is North Slope gas and we have 10 Bcf gas.

Regarding the offshore potential in the Chukchi Sea, another leading ConocoPhillips executive said the company is in a better position than some of its competitors. He didn't mention Shell, but it's clear that is the company he was talking about when he said another company was "burning" cash with its Chukchi plan.

Larry Archibald, a senior vice president of exploration and business development, said the Chukchi Sea prospects face regulatory hurdles. CEO Jim Mulva said he thinks his company's premise is that nothing is going to happen there before 2013.

"Yes, 2013 at the earliest," said Archibald. "We're actually in a, I guess, enviable position. We're not burning any cash on that operation as we wait for their regulator environment to be sorted out, unlike at least one of our competitors. We're not pregnant in an Arctic drilling fleet. And we're going to wait and see what develops there. And in the meantime, we're getting tolling, extension on our leases there. So we would like to get after it, but it's not urgent. In the meantime, we're going to park things until we see regulatory certainty. "

When the subject turned to North Slope natural gas, a stock analyst asked this: "On transportation capacity and political factors, you've had this Alaskan gas for a long time and dealing with the Alaskan government has been difficult. In the past few weeks the energy picture has changed a little bit with the tragic accident in Japan. And you could make a much stronger case today that we would have thought a few years ago for LNG on the Alaskan coast and sending it to Japan. So that the case for the Alaskan pipeline might be a lot better today than it was a year ago. Can you give us any comment on how do you think the government of Alaska is going to be more helpful in developing that kind of a project?"

Mulva responded:

"Well, it's a -- I'll ask Al to comment here in a moment, his thoughts on this. But it's an indigenous resource. We know that it's been there. It's probably going to be a high cost to the market. We'd like to get it developed, we know Alaska would, but it's going to take some fiscal certainty, maybe some incentives to make this happen. We have and along with other producers up the North Slope, who have looked at certainly a pipeline down the lower 48 or connect a manifold into the Lower 48 to the Canadian system.

I think that gas long-term is a real winner but still Alaska is going to be pretty high cost. We have looked at, as the other producers, we looked ourselves at LNG export. So whether that changes and leads to the development of our Salt gas, who knows. "