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March 8, 2010

The Honorable Bert Stedman
State Senate
Alaska State Capitol, Room 516
Juneau, Alaska 99801-1182

Dear Senator Stedman:

Thank you for the opportunity to present to the Senate Finance Committee on February 23, 2010, regarding the State of Alaska's oil tax structure.

Questions raised during the committee discussion are answered below with additional details provided in the referenced attachments.

Question 1: Does slide number 5, "North Slope Remaining Barrels," include heavy oil?

Response: Yes, the slide is the sum of the ANS production forecast from the Department of Revenue's (DOR) fall 2008 forecast for the years 2010-2050. DOR included production from the West Sak heavy oil reservoir in this forecast. Please see Attachment 1.

Question 2: Can you provide the inflation factors used to normalize North Slope expenditures on slide number 8?

Response: Cambridge Energy Resources Associates' (CERA) inflation factors were used to normalize the hyperinflation experienced by the oil industry in concurrence with oil price changes. These are the same inflation factors used by the Department of Revenue (DOR) in their presentation to the Senate Resources Committee on February 4, 2010. The DOR presentation and the table of inflation factors used by ConocoPhillips to adjust expenditures on slide number 8 are shown on Attachments 2 through 4.

March 8, 2010

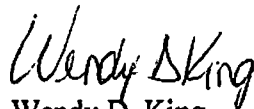
Question 3: For slide number 9, "Extending Core Field Lives," show capital split between maintenance/repair/replace and development.

Response: Please see Attachment 5, a reformatted version of slide number 9 to a stacked bar chart that shows the increasing maintenance investment focused on extending the core fields' lives. This investment is represented by the increasing gray portion of the bars. The flat to decreasing red portion of the bars shows the investment in projects and drilling.

The next chart, Attachment 6, presents a break down of the gross capital investment in the core North Slope fields. The red portion of the bars indicates that capital investment in drilling and new projects has declined in recent years. The gray portion shows that capital investment in core field maintenance, repair and replacement activities has increased. These maintenance capital investments are necessary to prolong the lives of and mitigate production decline rates of the core fields.

Please don't hesitate to contact me if the Committee has further questions or requires additional information.

Sincerely,

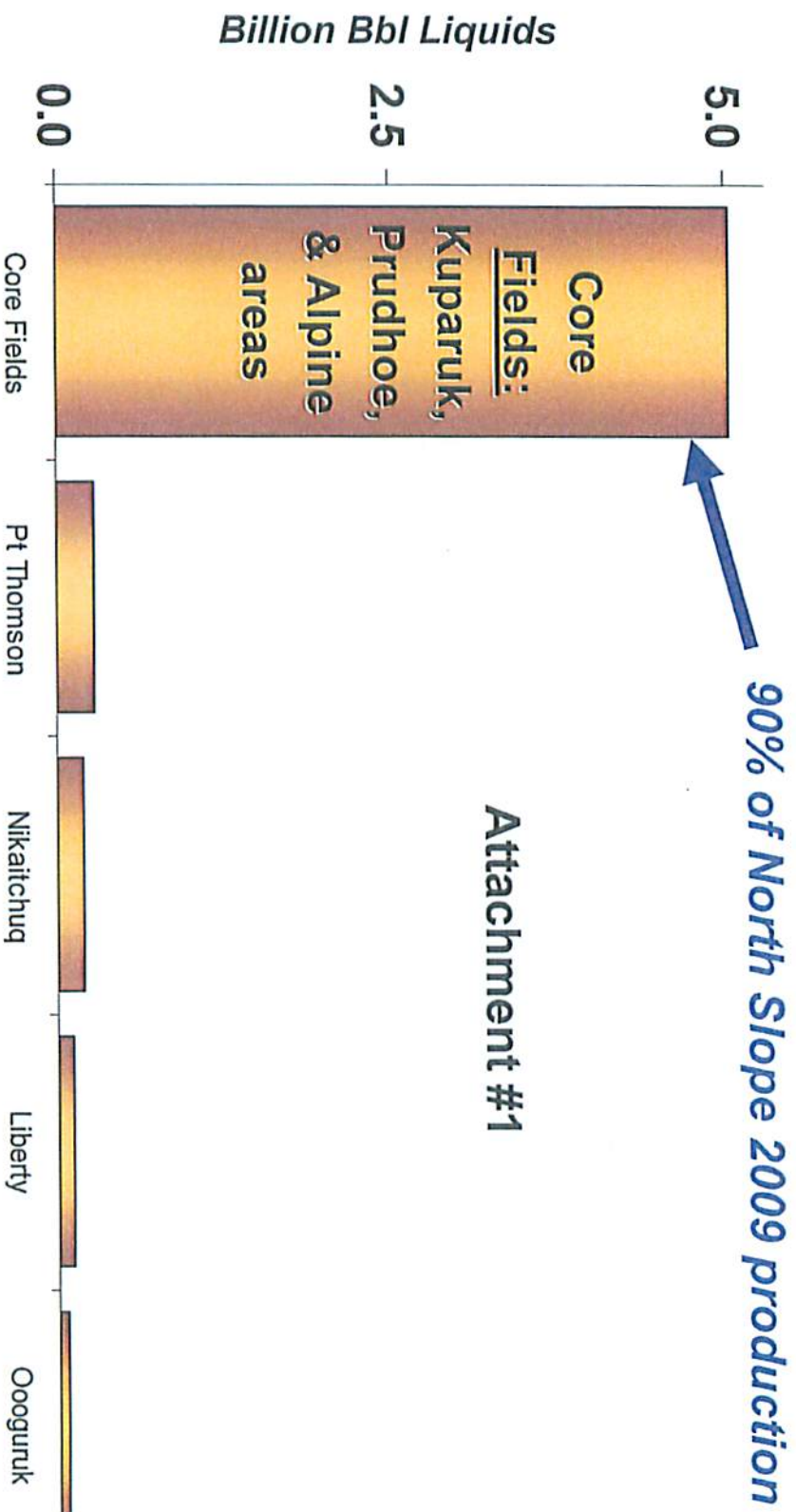


Wendy D. King

Attachments

cc: Brian Wenzel ConocoPhillips Alaska

North Slope Remaining Barrels



Core fields are dominant source of state production

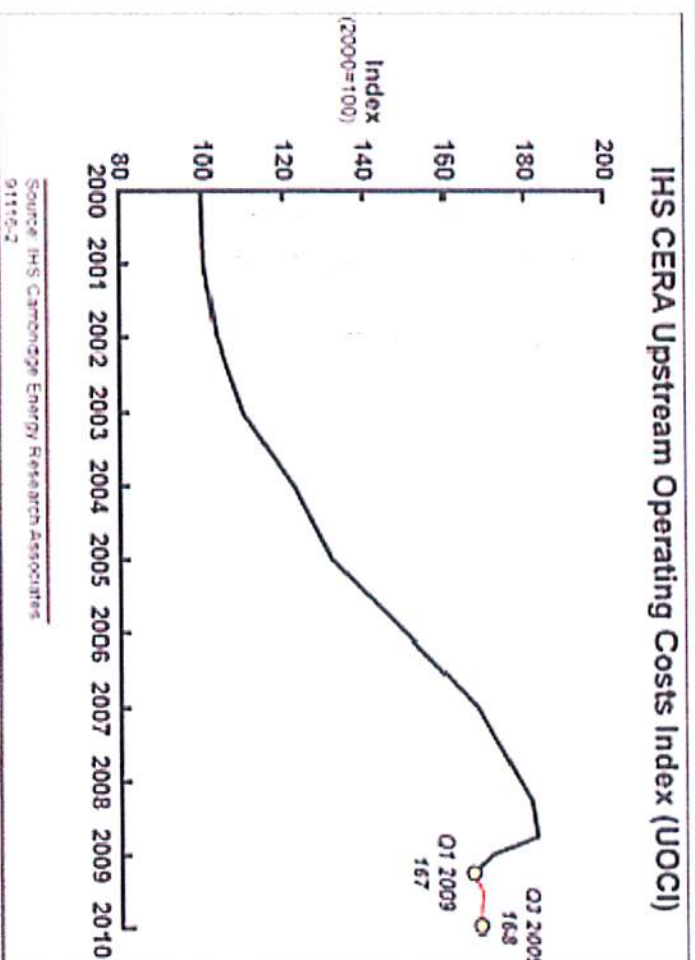
Source: DOR production forecast 2010 – 2050 volumes

CERA Inflation Factors

Attachment #2

Historical Trends – Worldwide Upstream Operating Costs

18



Alaska Department of Revenue

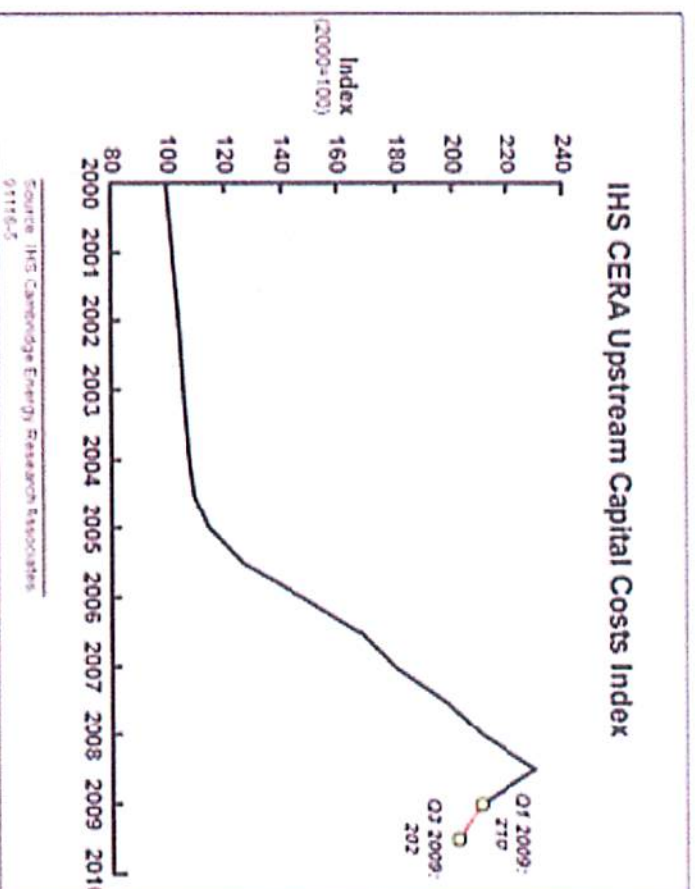
2/4/2010

CERA Inflation Factors

Attachment #3

Historical Trend – Worldwide Upstream Capital Costs

20



Alaska Department of Revenue

2/4/2010

CERA Inflation Factors

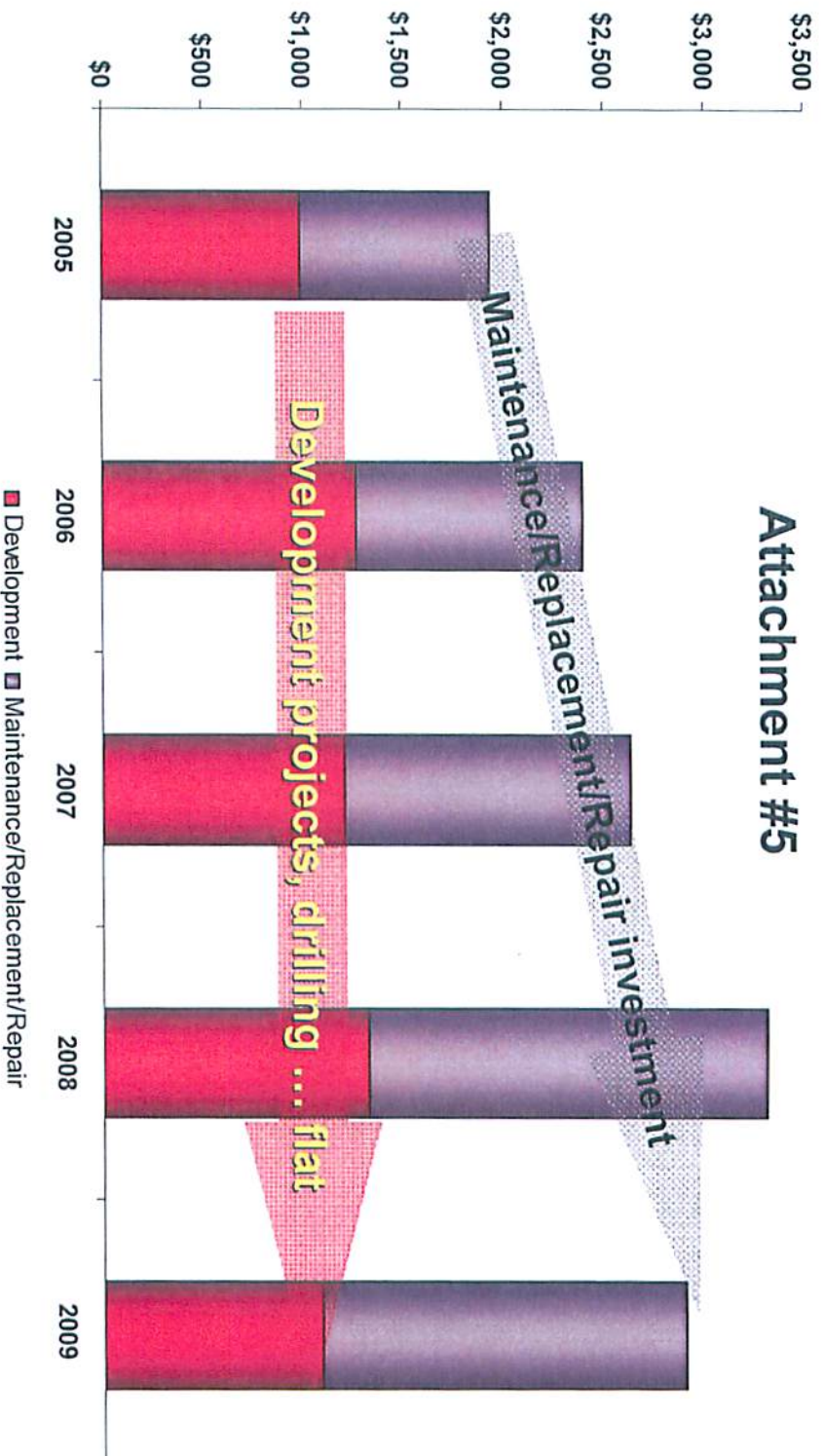
Attachment #4

	CERA Upstream Capital Costs Index	Inflation Adjustment	CERA Upstream Operating Cost Index	Inflation Adjustment
2007	167.4	1.00	150.6	1.00
2008	197.8	1.18	168.1	1.12
2009	230.0	1.37	181.7	1.21
2010	202.0	1.21	166.6	1.11

Core Field Investments Extend Field Life

Core field gross investments include **capital and operating expense**, \$MM

Attachment #5

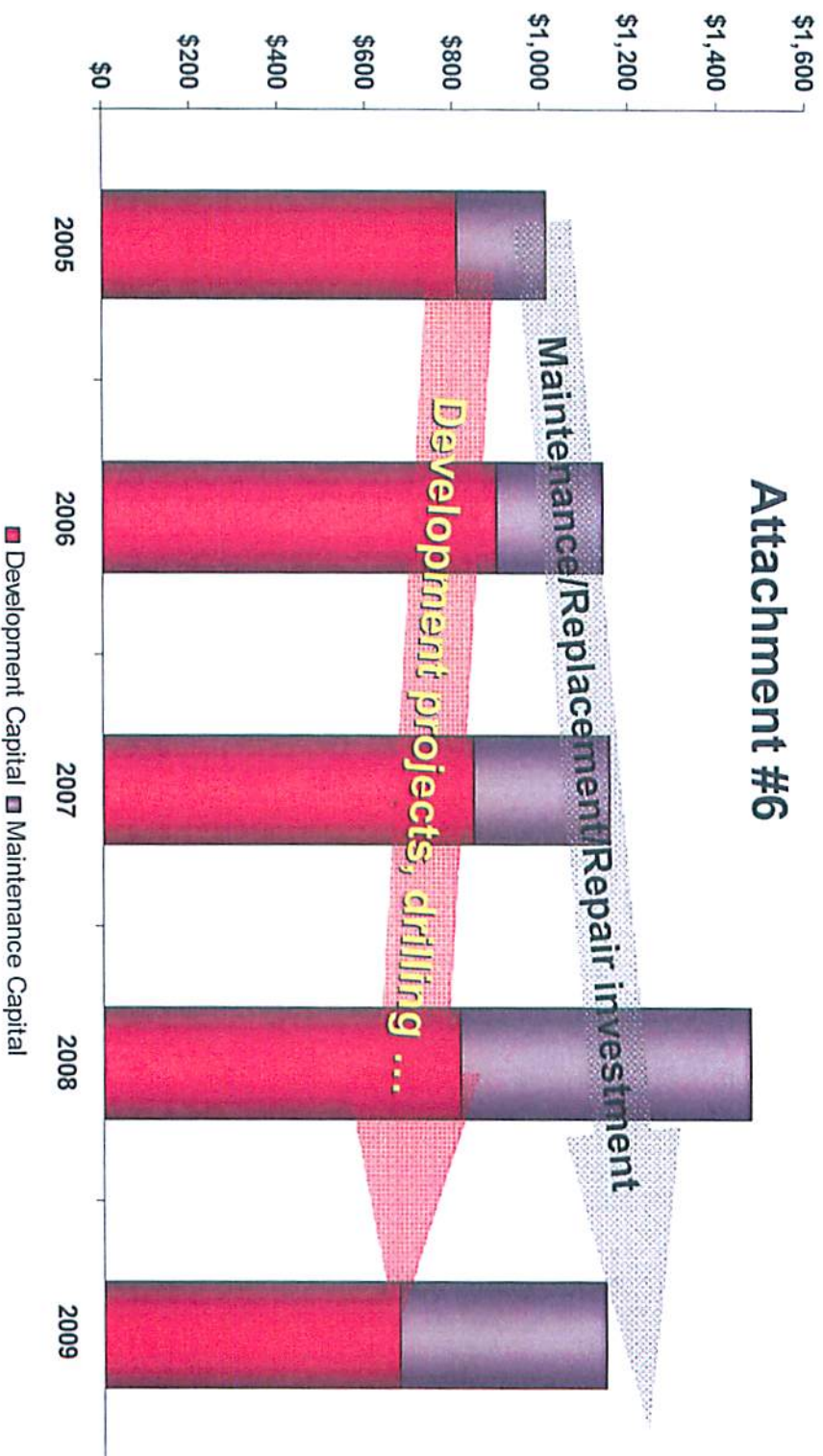


**Maintenance investment essential
to extending field life**

Capital Portion of Core Field Investment

Core field gross investment on **capital**, \$MM

Attachment #6



**Capital maintenance investment essential
component of extending field life**

Source: ConocoPhillips internal

ConocoPhillips