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March 23, 2010

The Honorable Mark Neuman
Co-Chairman, House Resources Committee
Alaska State Legislature
Alaska State Capital, Room 432
Juneau, AK 99801-1182

The Honorable Craig Johnson
Co-Chairman, House Resources Committee
Alaska State Legislature
Alaska State Capitol, Room 126
Juneau, AK 99801-1182

Dear Co-Chairmen Neuman and Johnson:

Thank you for the opportunity to present to the House Resources Committee on March 10, 2010, regarding the State of Alaska's oil tax structure and our support for HB308 as a positive step towards improving the investment climate in Alaska.

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

Question #1: Can you tell the committee where else ConocoPhillips is doing business, and about that level of investment?

Response #1: Please refer to ConocoPhillips Senior Vice President of Exploration & Business Development Larry Archibald's January 22 presentation to the Alaska Support Industry Alliance. This presentation covers ConocoPhillips' global exploration plans and can be accessed at http://alaskaalliance.com/pdf/archibald_meet_alaska3.pdf. I have attached six slides from the same presentation (see Attachments #1-6) to demonstrate the significant worldwide exploration expenditures (\$2 billion) by ConocoPhillips in a year when we will not be drilling an exploration well in Alaska for the first time in 45 years. Please also refer to <http://www.conocophillips.com> for additional details about our company and its investments.

Question #2: Do you have a graph looking at total North Slope investment, including Point Thomson?

Response #2: Please see Attachment #7 which charts the Department of Revenue's (DOR's) forecast for North Slope expenditures (red bars) and an estimate of the expenditure level without inflation (yellow bars), demonstrating that on an inflation-adjusted basis, oil and gas industry investment on the slope is flat. Attachment #8 is slide #16 from the DOR's February 4, 2010 presentation to the Senate Resources committee and depicts North Slope Expenditures for FY2007 through FY2011 forecast. Attachment #9 shows the anticipated total North Slope production decline rates under different investment scenarios.

The approximately \$4 billion annual expenditure shown by the DOR on Attachment #8 will be required to maintain the historical decline rate of about 6% shown on Attachment #9. The DOR's production forecast represents an approximate 2.5% production decline rate over the next ten years. Significant investment beyond the ~\$4 billion per year level will be required to approach that rate of decline. Investment incentives, such as increased tax credits and reduced progressivity, will be critical to stimulating additional investments. HB308 is a positive step in that direction.

HB308 is important in helping to reverse the troubling trend depicted in Attachment #10, which charts the most recent Alaska Department of Labor employment data for the Oil and Gas sector. The latest data, released earlier this month, illustrates a significantly different trend than previous data. The data now illustrates that employment in Alaska's oil and gas industry peaked in late-2008 and has been on a steeply declining trend since.

Attachment #11 is slide #22 from the DOR's February 16th presentation to the Senate Finance Committee. It presents both the DOR's 2008 and 2009 forecasts of capital expenditures at the North Slope currently producing properties for 2010-2012. In one year, the DOR reduced this forecast by \$1.3 billion, approximately 20%. This, combined with the DOR's approximate 20% reduction in remaining production for the North Slope core fields of Prudhoe Bay, Kuparuk, and Alpine from its 2008 to 2009 forecasts, is a troubling indication that the fiscal regime created by ACES is in need of change.

Question #3: Do you have an expectation of what will happen to production tax now that the standard deduction expired at the end of 2009?

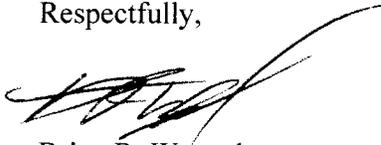
Response #3: Attachment #12 is slide #22 of the DOR's February 4, 2010 presentation to the Senate Resources committee. The brown portion of the bars represents the incremental tax collected as a result of the standard deduction. The total production tax collected would have only been about 5% less had the standard deduction not been in place.

Question #4: Please further explain the number of U.S. drilling rigs on slide #8, "Active Drilling Rigs in Core Fields 2005-2009."

Response #4: Please see Attachment #13, which compares the U.S. oil rig count to the oil rig count at the North Slope core fields, Prudhoe, Kuparuk, and Alpine. The green line depicts the US rig count which trended with oil price and ranged from 184 to 415 as depicted by the right axis. The red bars represent the core fields' rig count on the left axis, which did not trend with oil price. In fact, following the early-2009 oil price dip, the U.S. oil rig count increased about 75% while the North Slope core fields' rig count dropped by approximately 30%. The Committee commented that one rig is approximately 100 direct jobs. Increases in well-related tax credits and reduced progressivity will help stimulate additional rig activity.

Please do not hesitate to contact me if the Committee has further questions or requires additional information.

Respectfully,



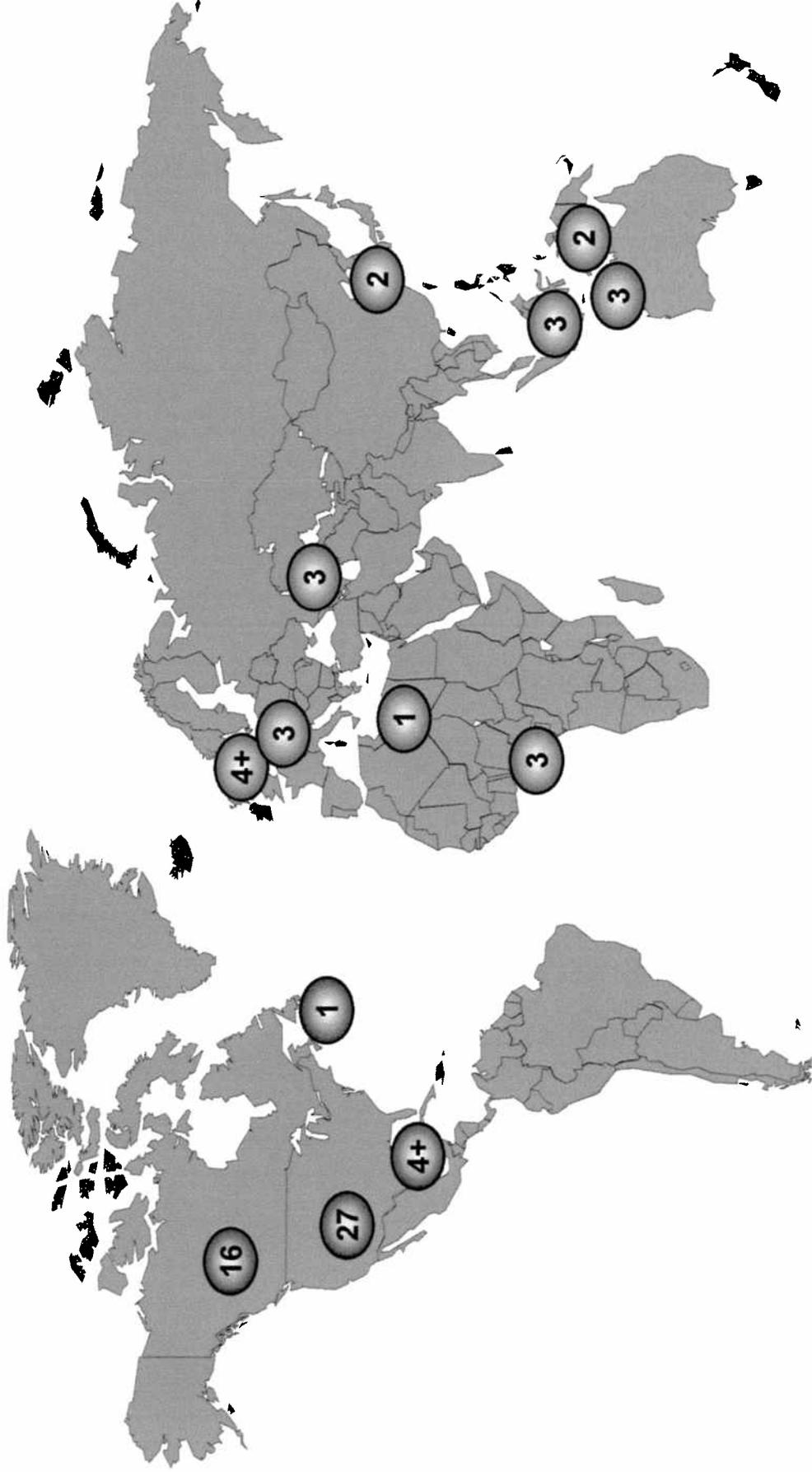
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Attachments

2010 ConocoPhillips Exploration & Appraisal

Activity

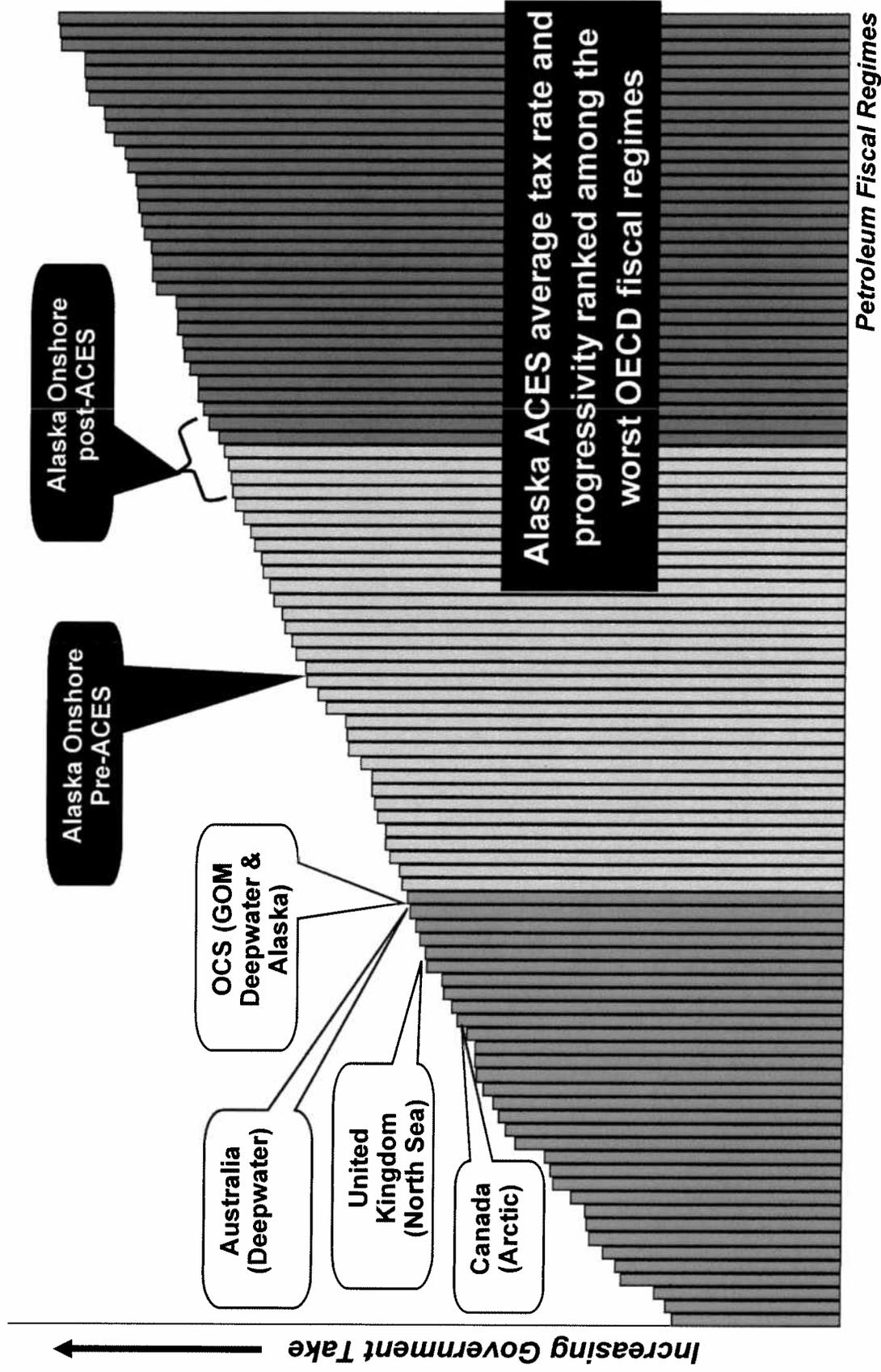
Attachment #1



Investing \$2 B in Global Exploration & Appraisal Activities

Global Perspective on Government Take

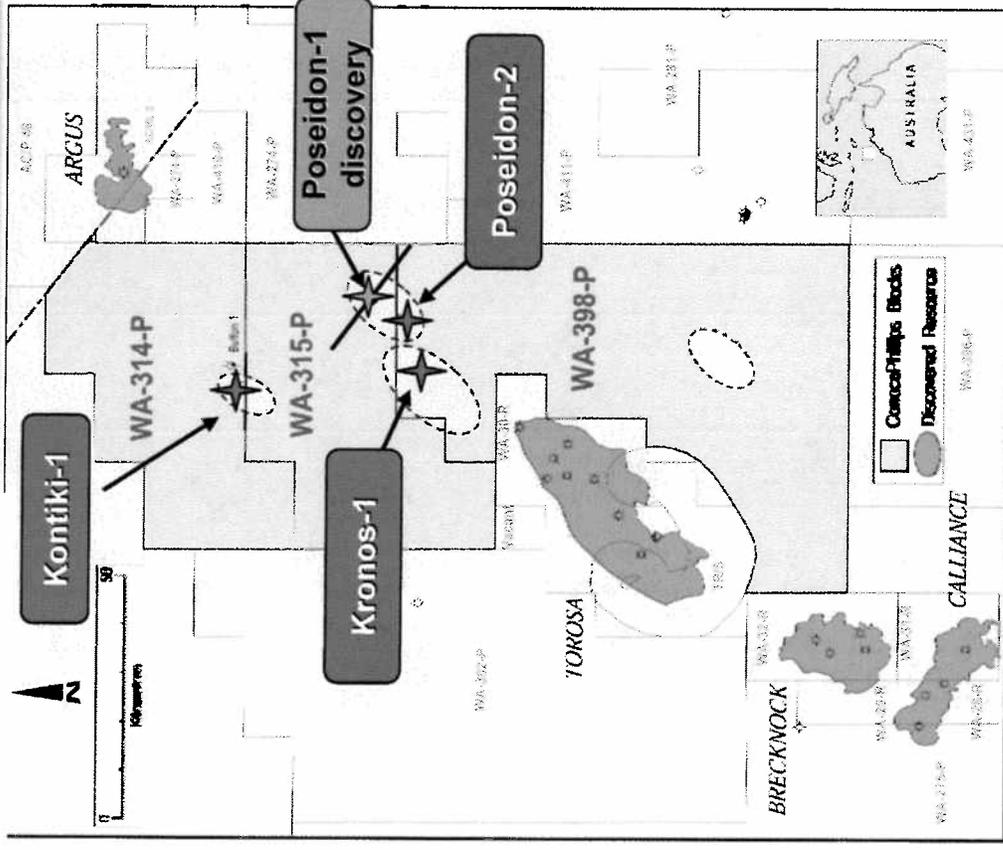
Attachment #2



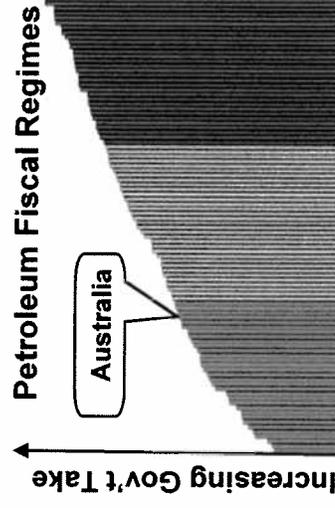
Data from Wood Mackenzie Government Take Analysis Dec 2009 and internal COP – high price case

COP's Australia - Browse Basin Activity

Attachment #3



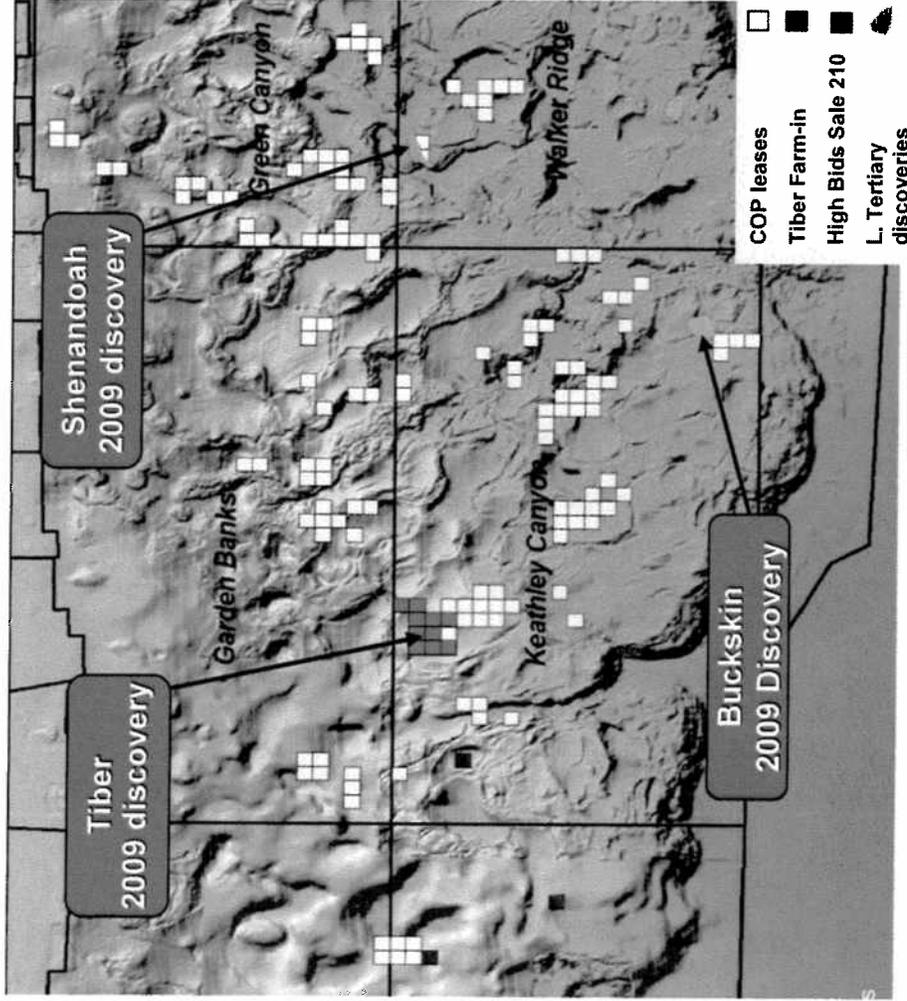
- ConocoPhillips currently testing Browse Basin acreage position
- Adequate fiscal terms support exploration activities
 - Well costs: \$60-100 MM
- COP operated Poseidon-1 discovery in 2009
 - Multi-TCF potential
- Poseidon-2 appraisal well in progress
- Further exploration activities planned



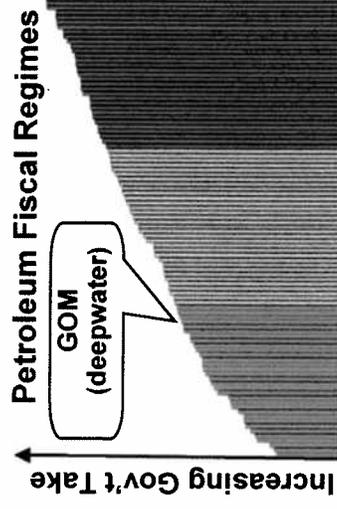
Adequate fiscal terms, giant resource potential

Lower Tertiary Play - Gulf of Mexico OCS

Attachment #4



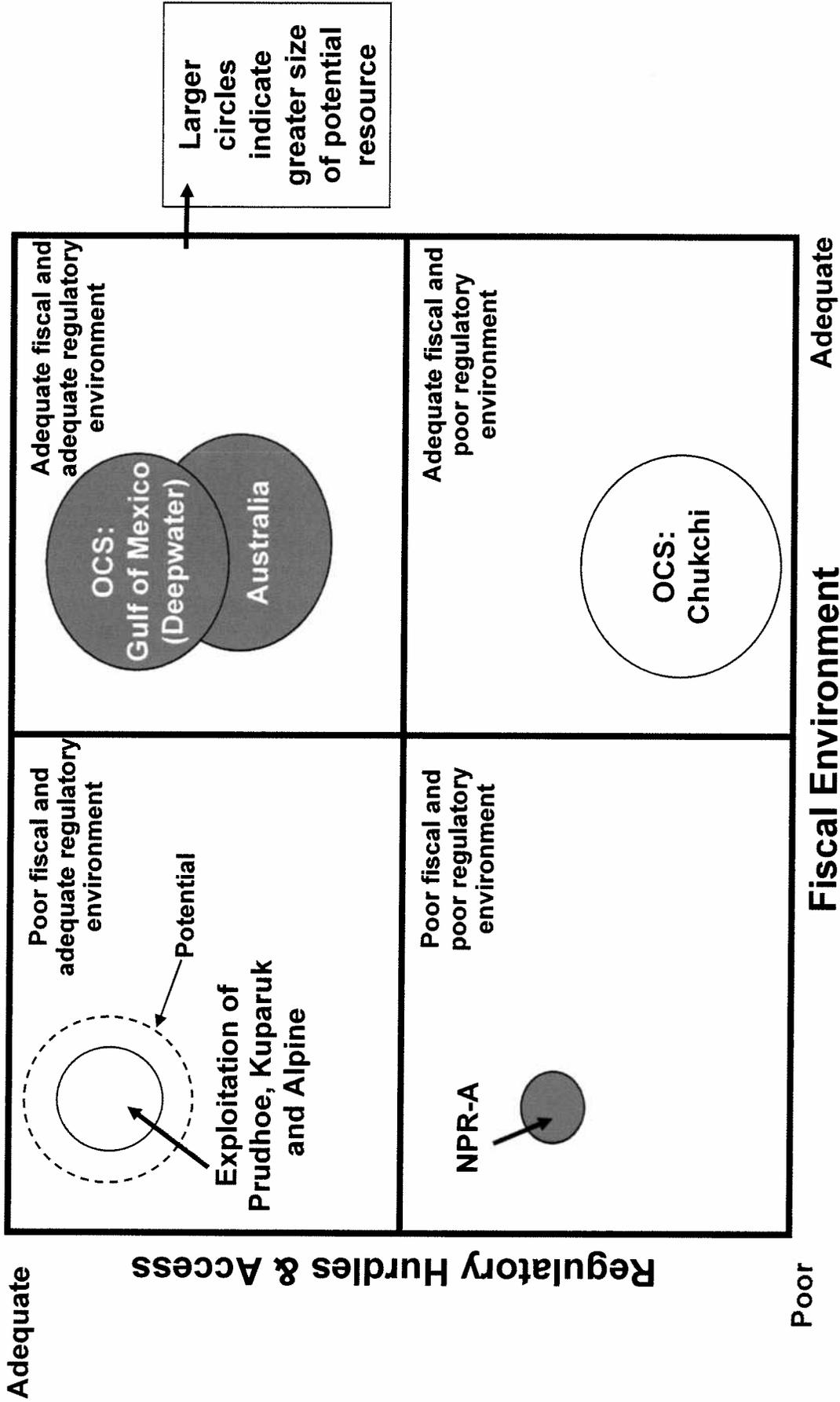
- Emerging deepwater Lower Tertiary play has giant prospects
 - 3 significant discoveries in 2009
 - COP owns equity in Tiber & Shenandoah discoveries
- Well costs typically \$150 MM
- Target depths >30,000 ft
- Lease & fiscal terms worsening
 - 50% increase in royalty rate from 2006



Adequate fiscal terms, but moving in the wrong direction

Comparing Investment Options

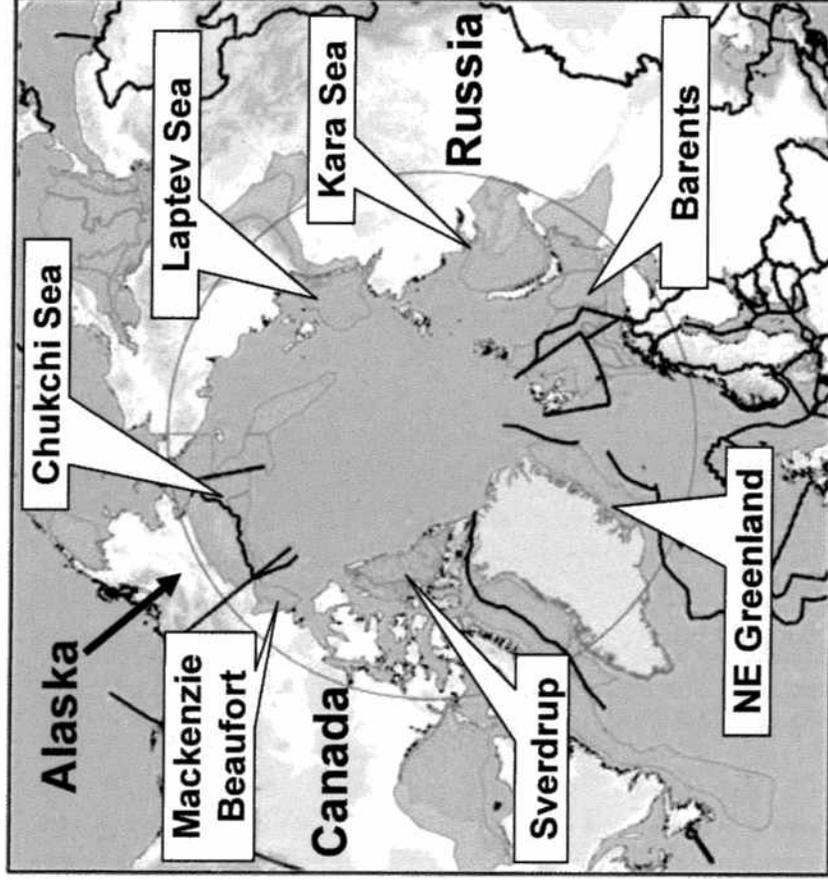
Attachment #5



*NPRA subject to federal regulations, exploitation of Prudhoe/Kuparuk/Alpine subject to state regulations
Resource Potential: Indicated by the size of the circles (larger circles indicate larger resources)*

Arctic Resource Potential

Attachment #6



- Arctic offshore basins, especially Chukchi are underexplored
 - Canada Arctic Isl. ~ 180 wells
 - Canada Beaufort ~ 90 wells
 - Norway – Barents... ~ 80 wells
 - Russia – Offshore Arctic ~ 70 wells
 - U.S. Beaufort OCS ~ 30 wells
 - U.S. Chukchi OCS 5 wells
- U.S. GOM much higher activity
 - U.S. GOM Deepwater ~500 wells
- More than 20% of global yet-to-find oil is in the Arctic*
- Alaskan Arctic investments need to compete with other world-scale opportunities

Giant undiscovered potential in underexplored basins

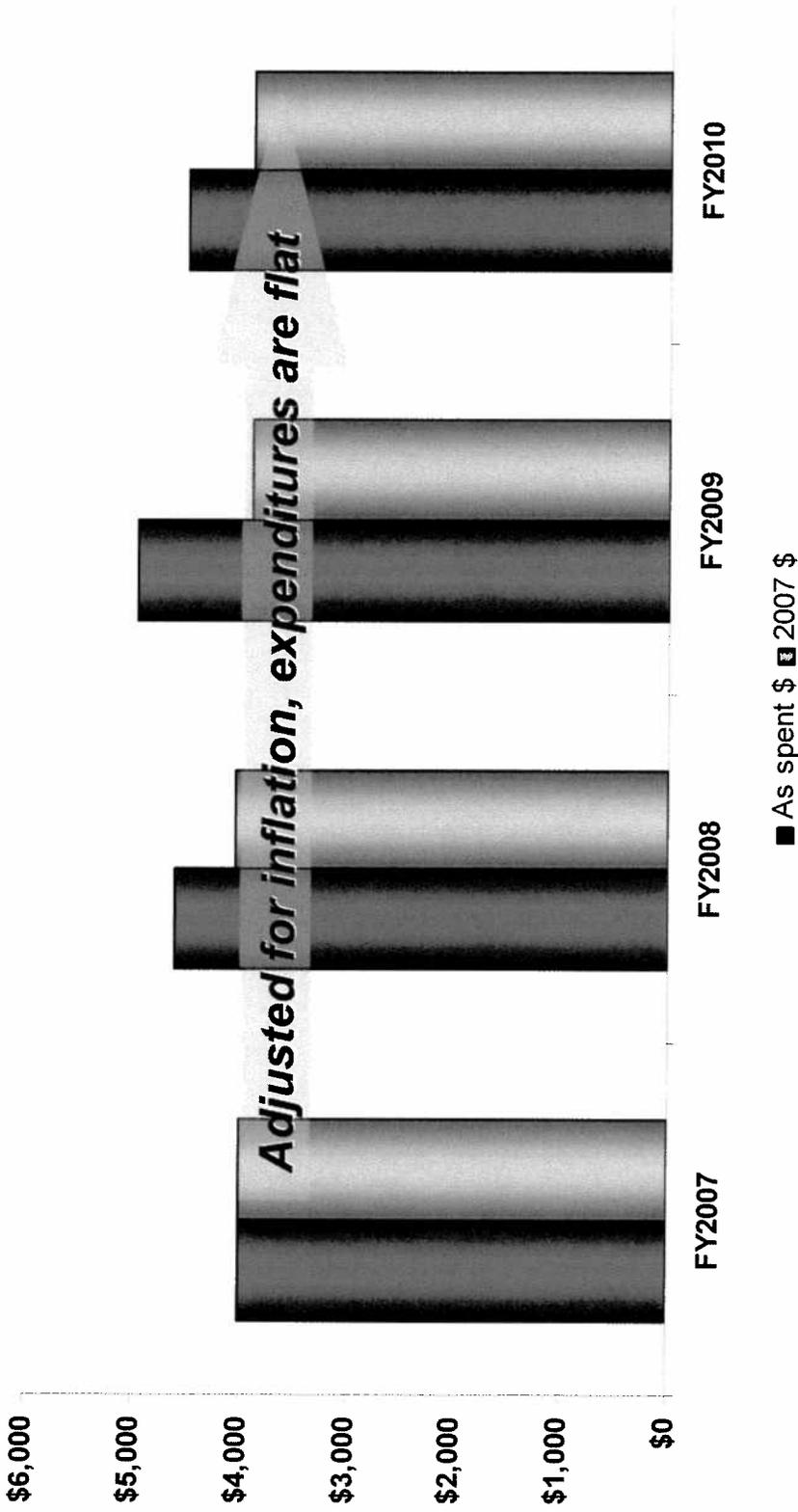
* Source: USGS

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Inflation Impact on Expenditures

Attachment #7

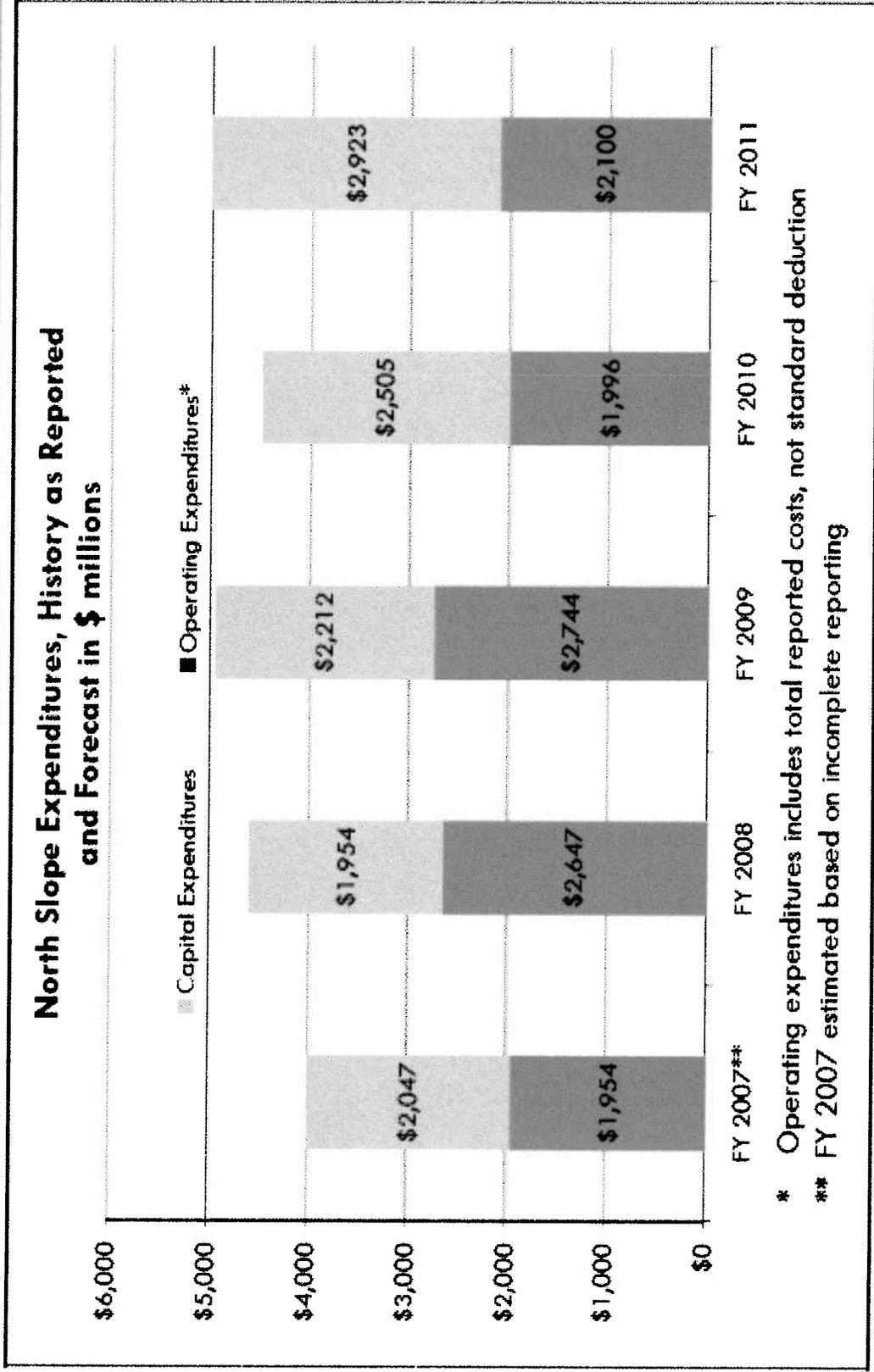
North Slope Industry spending on capital and operating expense, \$MM



Inflation is significant factor in spending increase

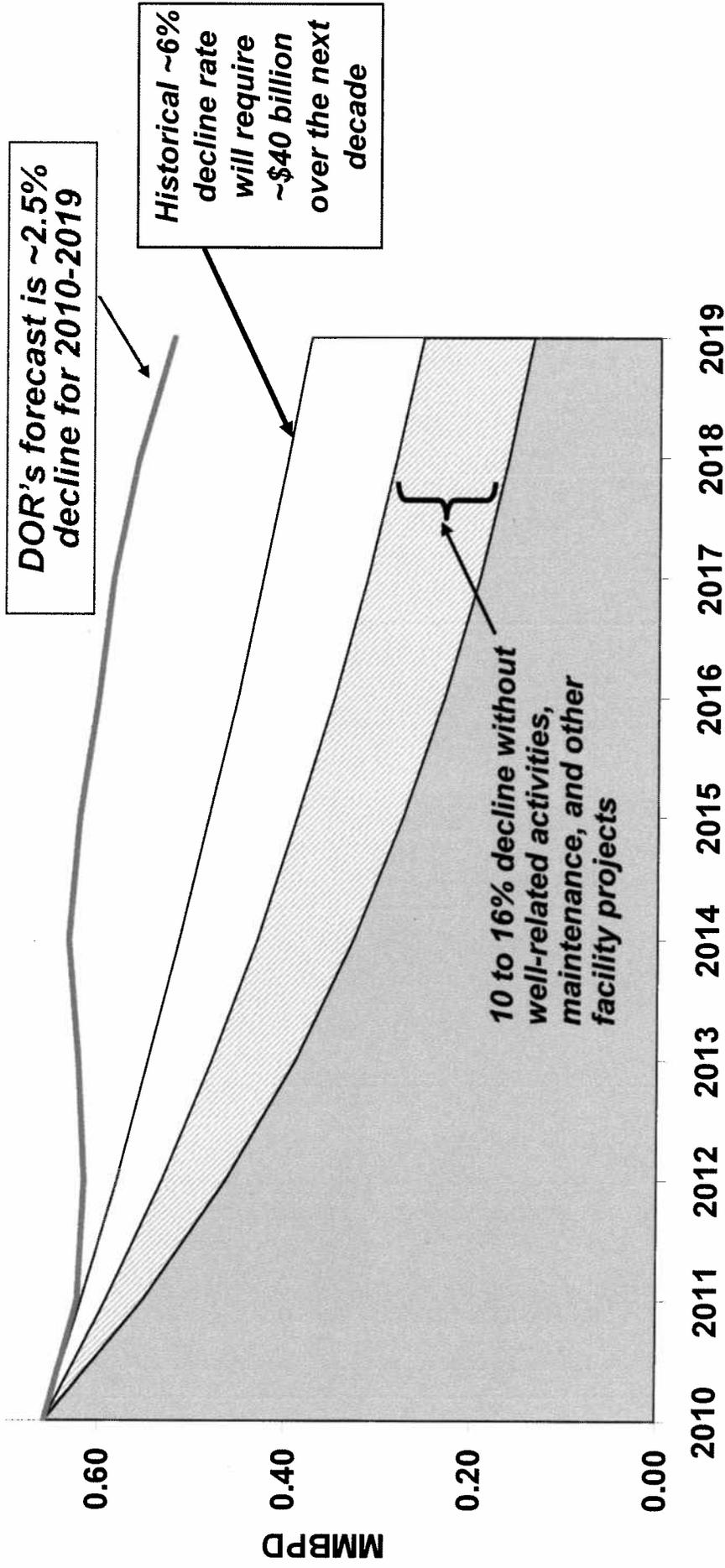
Sources: DOR 2/4/10 Senate Resources Committee testimony for expenditures and CERA inflation factors

North Slope Expenditures



2010-2019 North Slope Production

Attachment #9



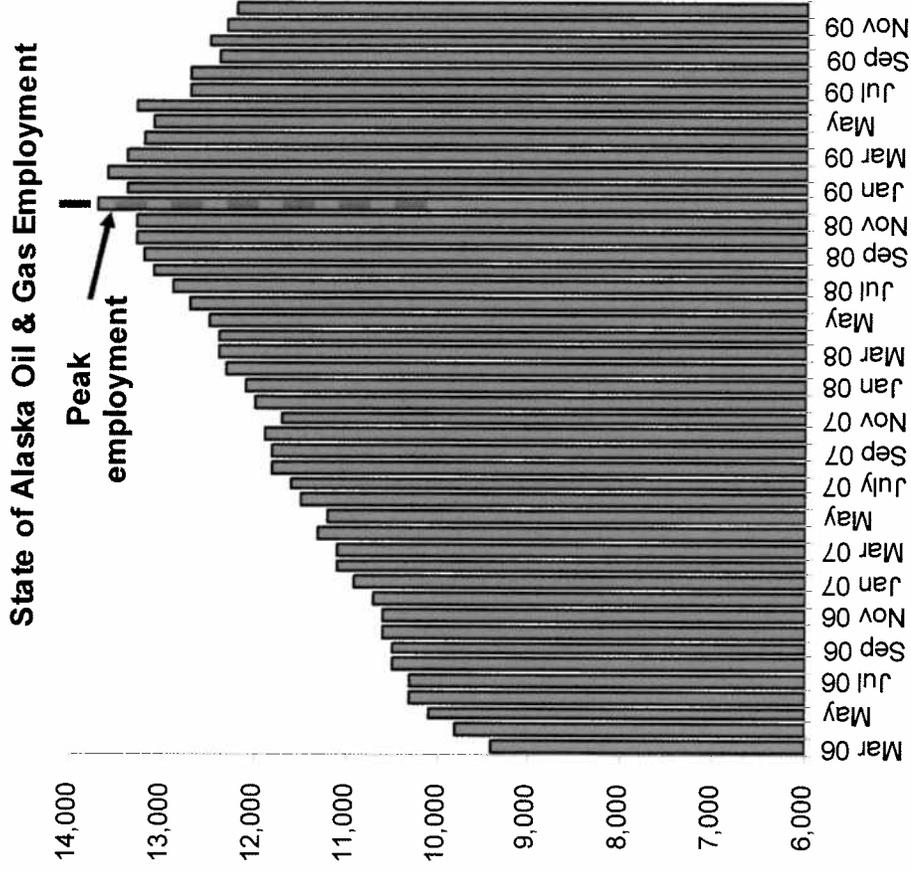
Future production dependent upon investment

Sources: DOR production forecast and extrapolation of DOR expenditures forecast
ConocoPhillips estimates for base decline rate

Oil & Gas Employment

Attachment #10

- Data since Dec-08 indicate downward trend in oil and gas jobs
- Employment levels driven primarily by maintenance and inspection activity
- Alaska state unemployment rising in oil and gas support sector
- Leading indicators: Kuparuk camp usage down 20%



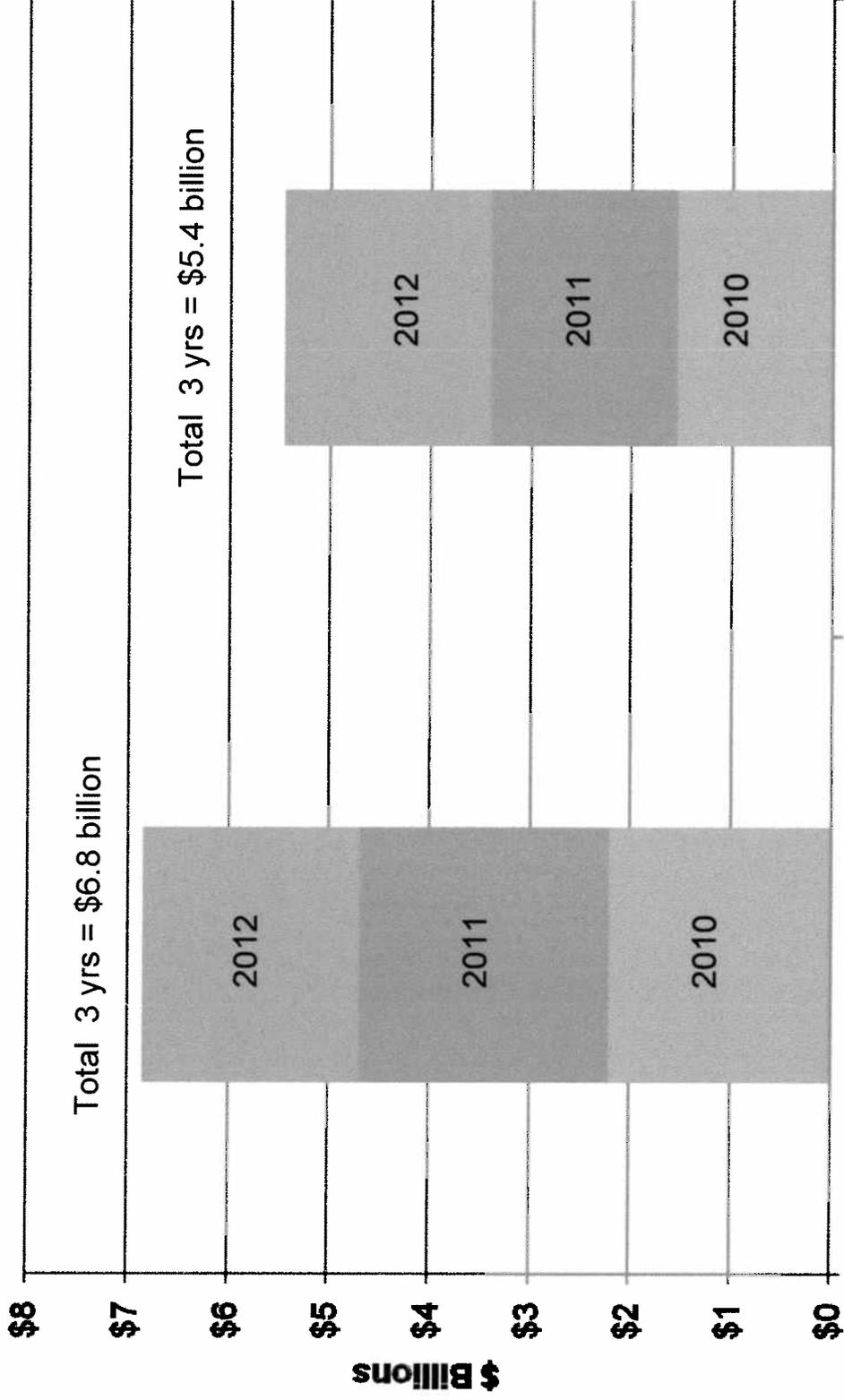
Rise in employment began in 2006

Source: Alaska Dept of Labor employment data, March 12, 2010

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Capital Expenditure on Currently Producing Properties

Attachment #11

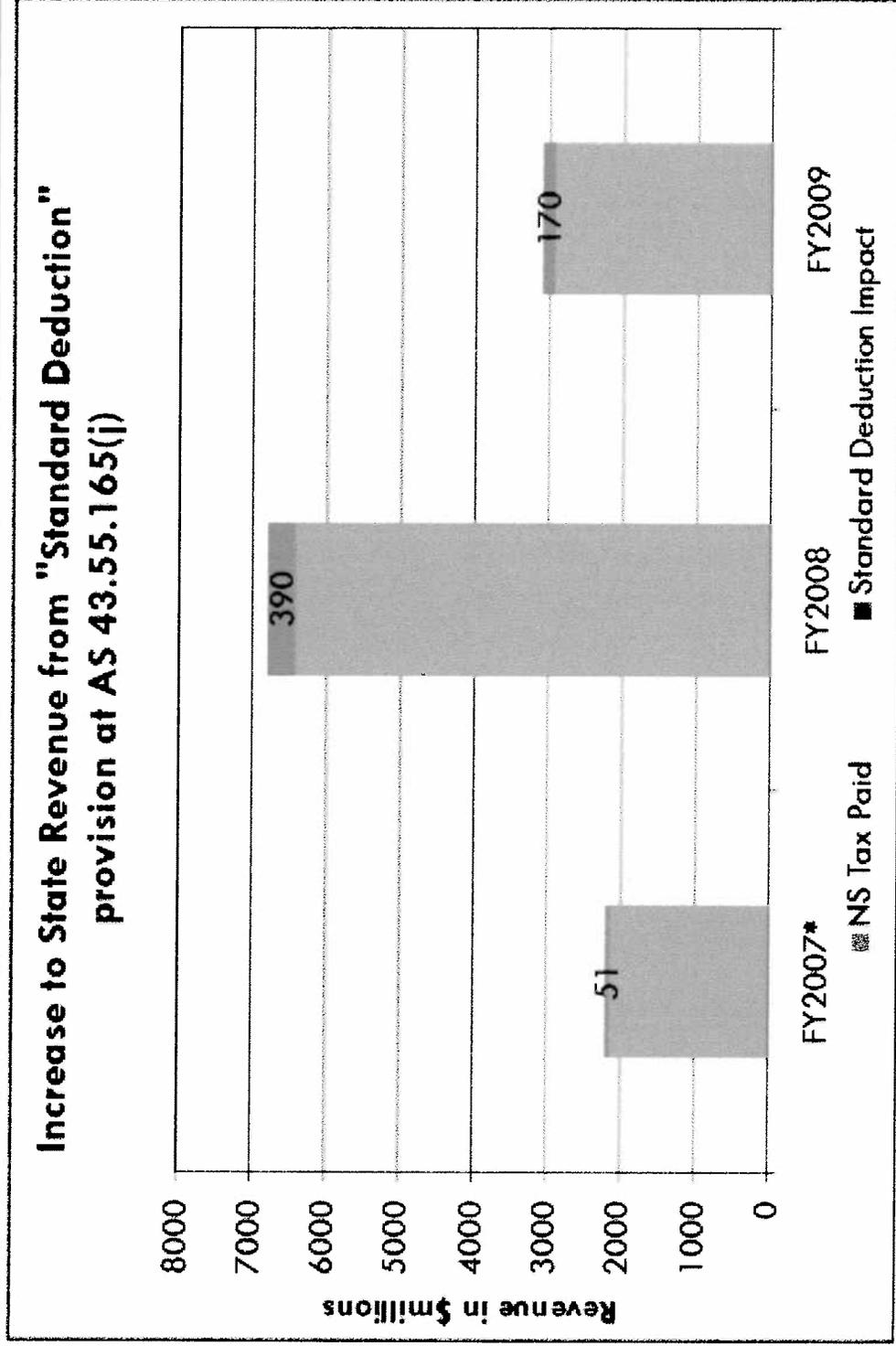


Fall 2008 Projections

Fall 2009 Projections

Note: Excludes Colville River, Oooguruk, Nikaitsuq and PT Thomson

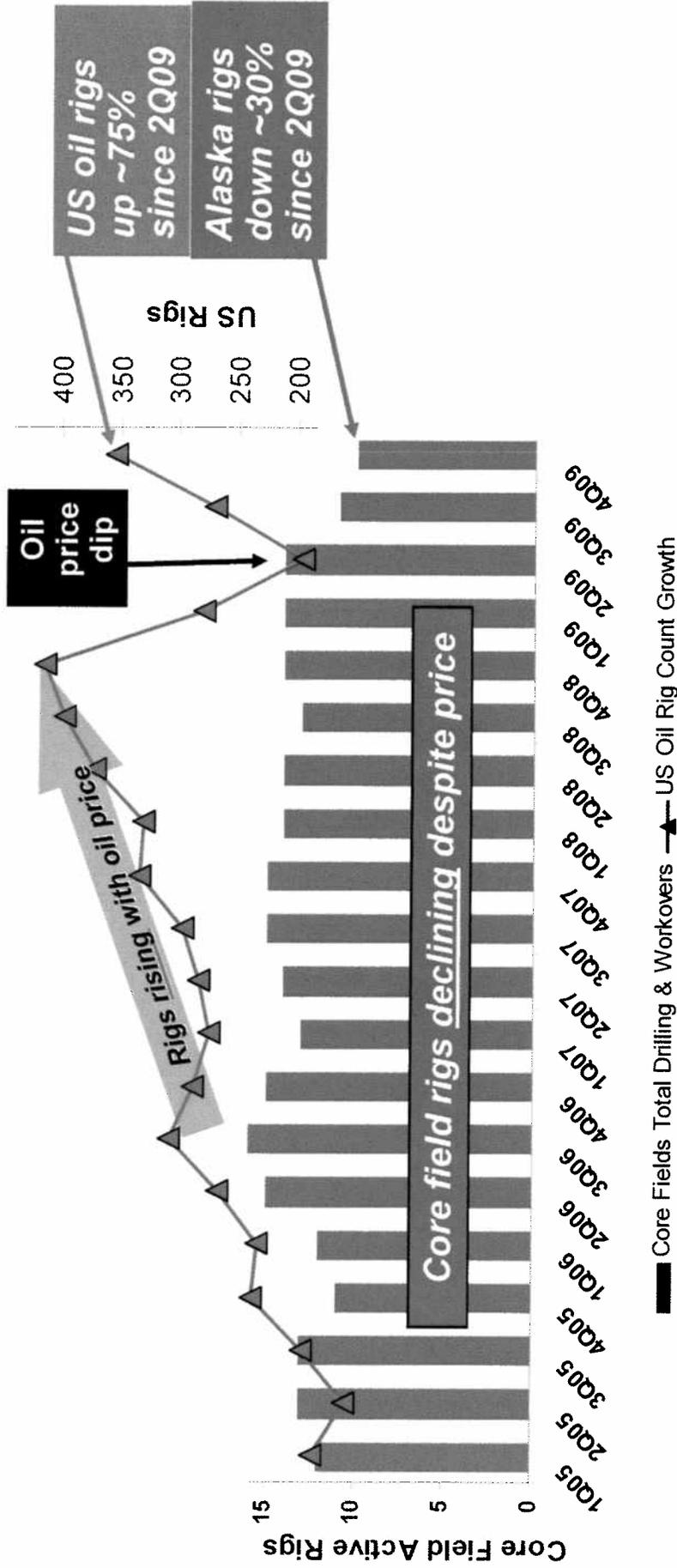
Effect of Standard Deduction Provision



*Standard Deduction in place for half of FY 2007.

Active Drilling Rigs in Core Fields 2005-2009

Attachment #13



Alaska drilling activity declining while US drilling activity increasing

Sources: ConocoPhillips internal for core fields rig count, Baker Hughes for US oil rig count, DOR for oil price