

ConocoPhillips Alaska
Senate Resources Committee
SB138 – February 12, 2014

Madame Chair, members of the committee, for the record my name is Pat Flood. I supervise the North Slope gas development team for ConocoPhillips in Anchorage.

ConocoPhillips appreciates the opportunity to testify today in support of SB138.

Last week I came before you to discuss the Heads of Agreement and said that ConocoPhillips believes there are four key areas where it is important to get legislative input to continue advancing the project as envisioned in the Heads of Agreement:

1. The state must decide that it wants to participate in the project.
2. The state needs to decide what share of the gas the state would have, which would set the state's participation share.
3. The legislature needs to define a production tax (taken as gas molecules), which, with the existing state royalty (also taken as gas molecules) would provide the state's overall gas share that would support the state participation share.
4. The legislature needs to give the administration the necessary tools to confidentially work through all the various arrangements and contracts required to move the project ahead as is outlined in the Heads of Agreement.

We think that, overall, the proposed legislation, as general law, effectively addresses these key areas.

In their sectional analysis this past Friday the administration broke the proposed legislation into three groups of sections, the first group dealt with AGDC's scope, powers and structure. The second group dealt with the DNR commissioner's powers and duties with respect to contract negotiations and oil and gas leases; and the third group dealt with the tax statutes.

In our testimony today we'll address our comments in the same three groups.

The first group of sections in the bill address AGDC and its potential role with regard to an LNG project. ConocoPhillips supports AGDC managing the State's participation share in an LNG project. We realize that there are ongoing legislative discussions about the structure being proposed. Ultimately, the details of AGDC's structure and authority are a decision for the state. We simply support AGDC as a viable way for the state to participate in an LNG project.

The second group of sections in Title 38 relate to the DNR commissioner's flexibility with respect to negotiating changes to the oil and gas leases from which gas could be

committed to a larger project, and for the myriad other agreements that would be required in order to progress an LNG project and manage the state's role in such a project. The LNG business, as your consultants have told you, requires numerous contracts covering nearly all the aspects of the value chain. For the state to effectively participate in a large natural gas project, such as an LNG project, with other private co-venturers the commissioners of both DNR and DOR need to be able to negotiate, confidentially, the details of these many agreements in a way that doesn't compromise the commercial positions.

We believe the commissioners need this authority in order for the state to effectively participate in a project with other parties.

The final set of sections deals with the tax statutes in Title 43. These provisions set a fixed gross value production tax at 10.5%, with the ability of the state to accept payment of this tax in gas molecules. Effectively, the choice of the tax rate, when combined with the existing royalty percentage, would set the state gas share for participation in a natural gas project such as the LNG project contemplated in the Heads of Agreement.

ConocoPhillips does support the provisions that allow for a fixed gross production tax, payable in gas. The 10.5% rate the administration has proposed yields a combined royalty plus production tax in the range of the 20-25% that is in the Heads of Agreement..

Overall, Madame Chair, ConocoPhillips supports the legislation, recognizing that it contains some significant policy decisions the legislature needs to make when contemplating the state's role in a large natural gas project, including the LNG project contemplated in the Heads of Agreement.

To the extent that we can help you by providing information or perspectives on those issues we're happy to do so.

Thank you, Madame Chair, for the opportunity to testify today. We are available to try to answer any questions you, or the committee, may have.