
House Resources Committee

HB72

Bob Heinrich, VP Finance

Scott Jepsen, VP External Affairs

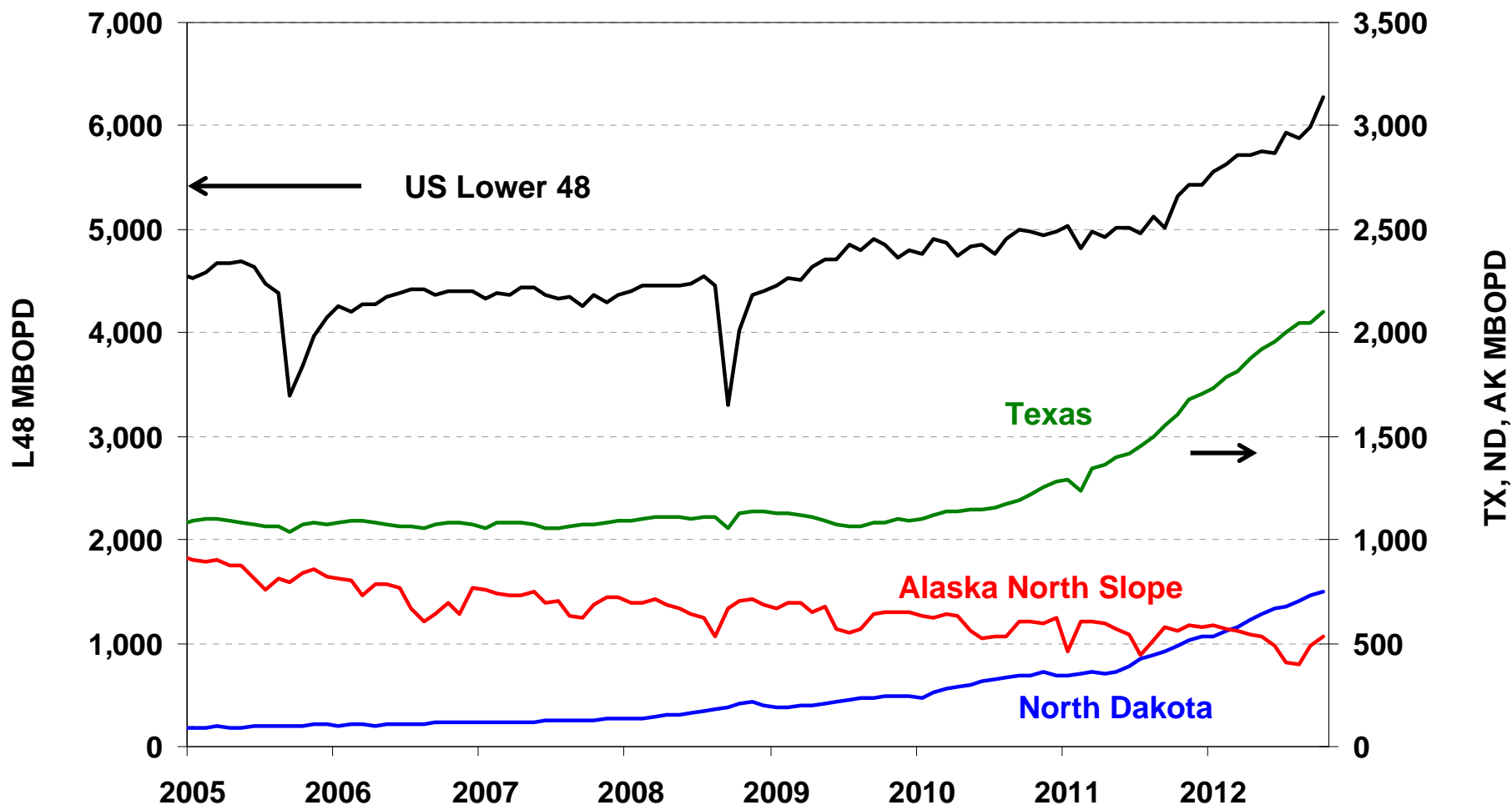
ConocoPhillips Alaska

February 20, 2013

Topics

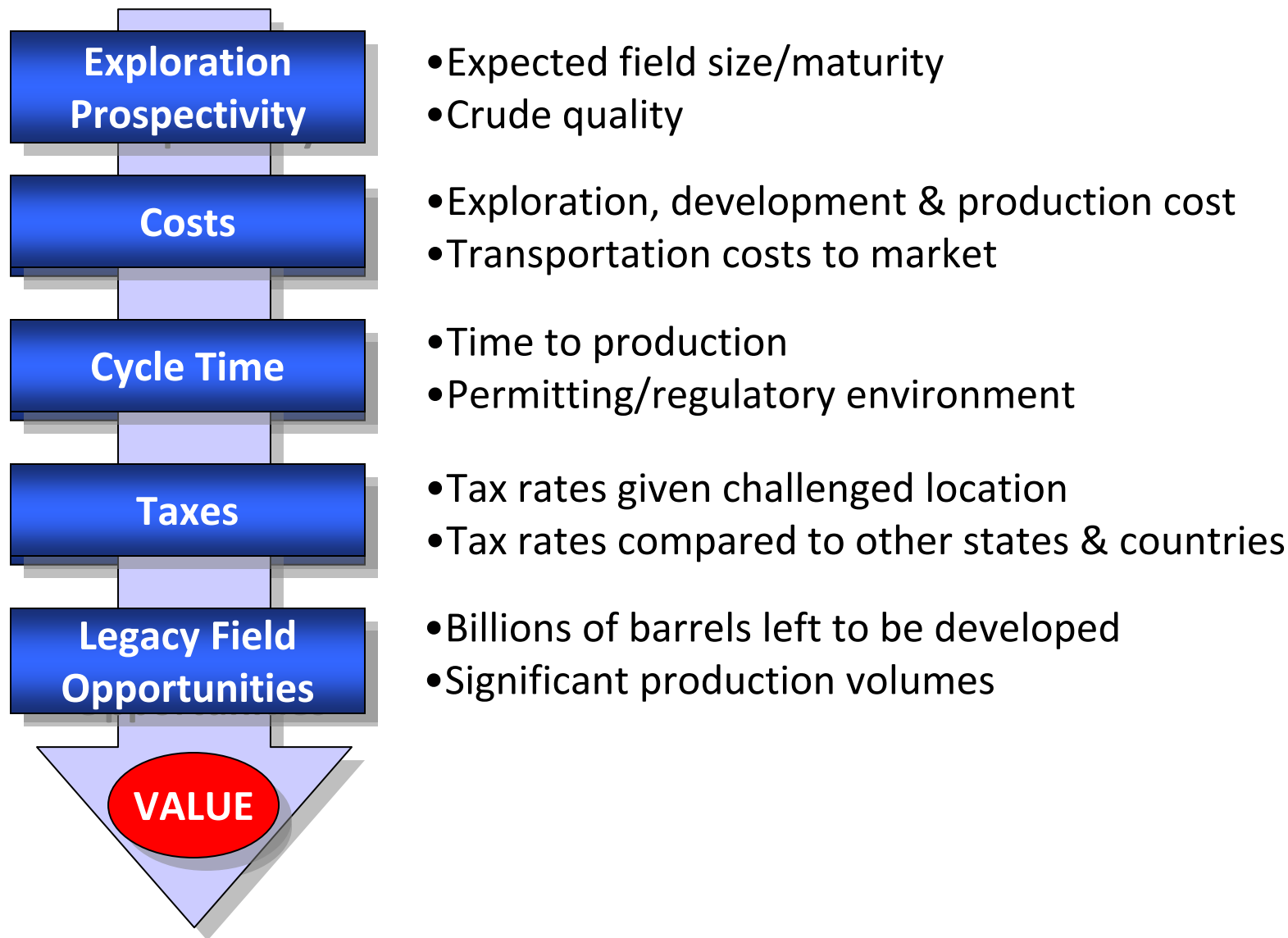
- ▶ Alaska's Production Challenge
- ▶ Investment Considerations and Alaska's Cost Environment
- ▶ ACES and HB72
- ▶ Observations

Alaska Decline Continues While Lower 48 Production Continues to Increase

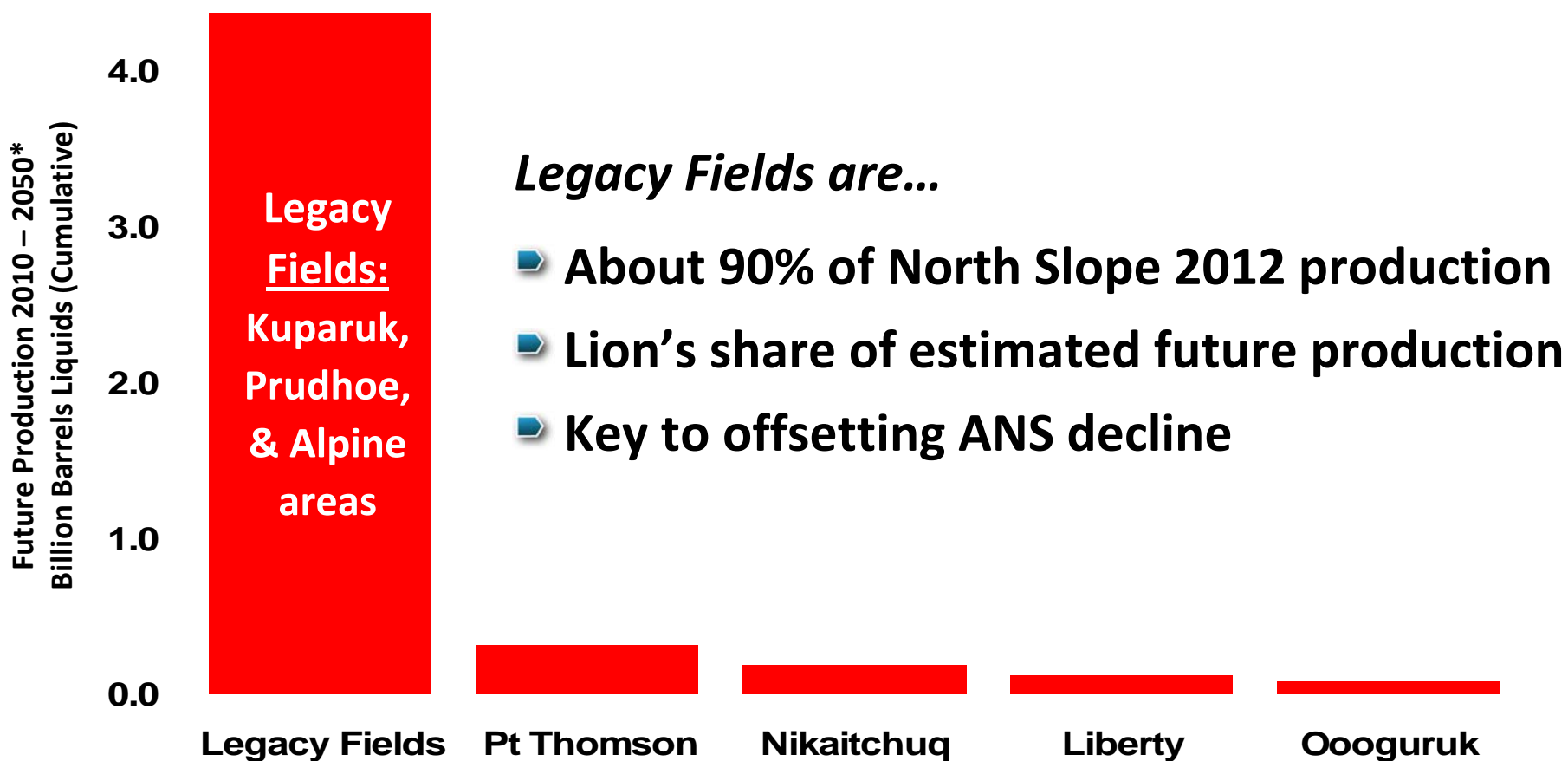


Alaska – A Challenging Investment Climate

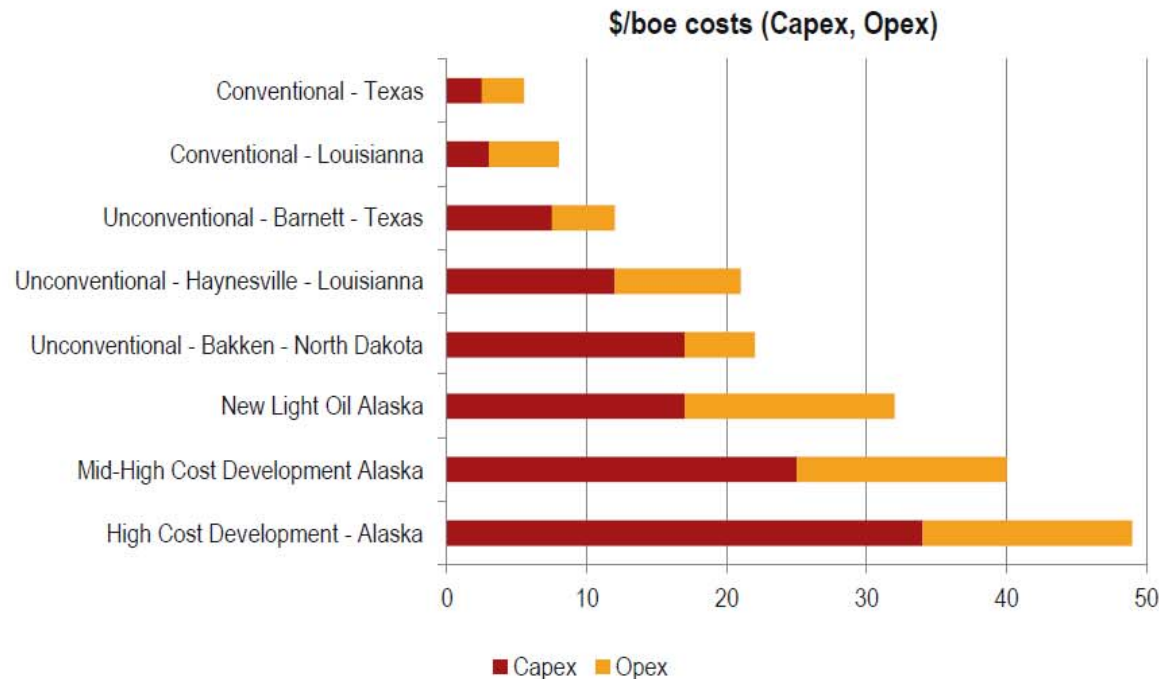
Investment Criteria: How Alaska Ranks



Alaska Legacy Fields Still Provide Significant Opportunity



Alaska's Days of "Easy Oil" Are Gone: High Costs and High Government Take Present Challenges



Costs are significantly higher in Alaska than the Lower 48 – even compared to unconvensionals. Meanwhile, Alaska's Government Take has risen significantly over recent years, meaning new project economics can be very challenging

“Easy Oil” In the Legacy Fields Is Gone

Challenged oil remains

- Complex, high cost wells
- Smaller reserve targets
- Fault blocks, flank oil
- Satellites, viscous oil
- Most new wells produce oil AND water
- Facilities handling ~ three times as much water as oil

A billion dollars does not go as far as it used to...

- 2000 Alpine development ~80,000 BOPD
- 2012 CD-5 Drillsite ~18,000 BOPD



Initial Alpine Development



CD-5 Type Development

ACES Observations

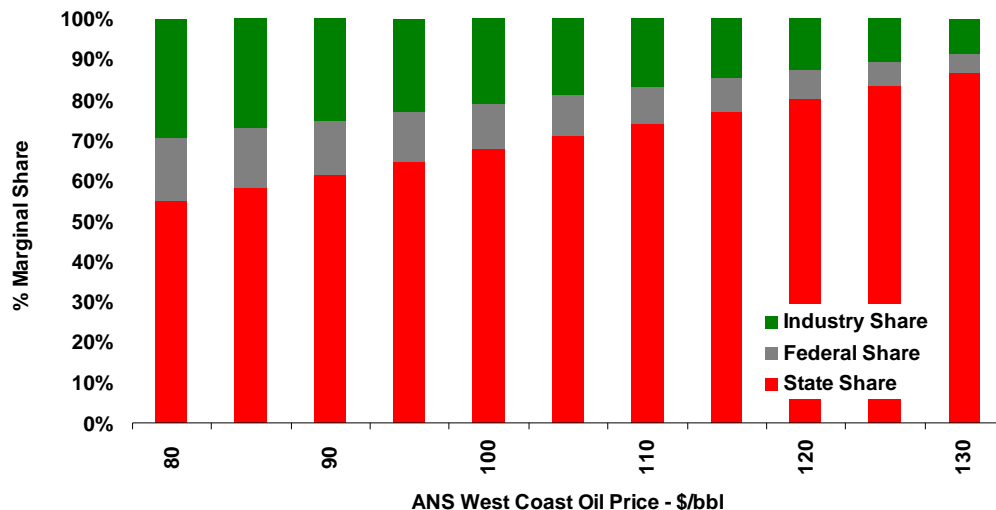
Positive Elements

- Tax credits help offset Alaska's high cost environment
- Tax credits provided for both new and legacy fields

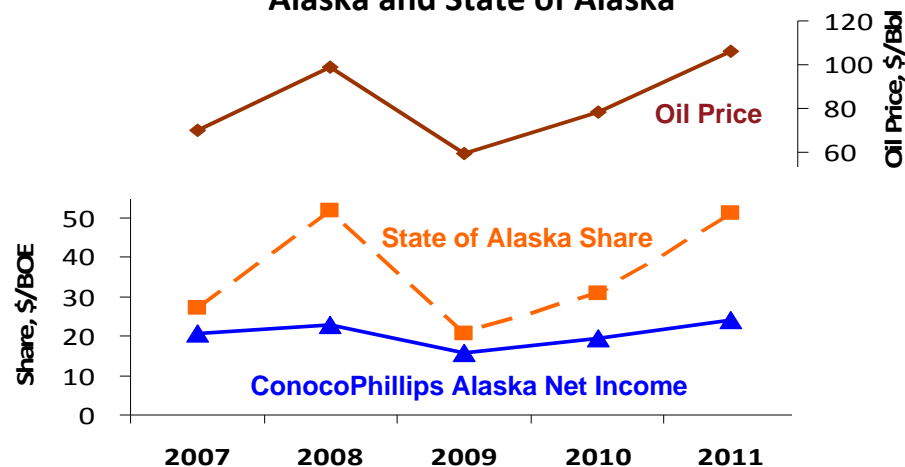
Negative Elements

- High average tax rates
- High marginal tax rates
- Gross minimum tax
 - Tax still paid if revenues don't cover costs

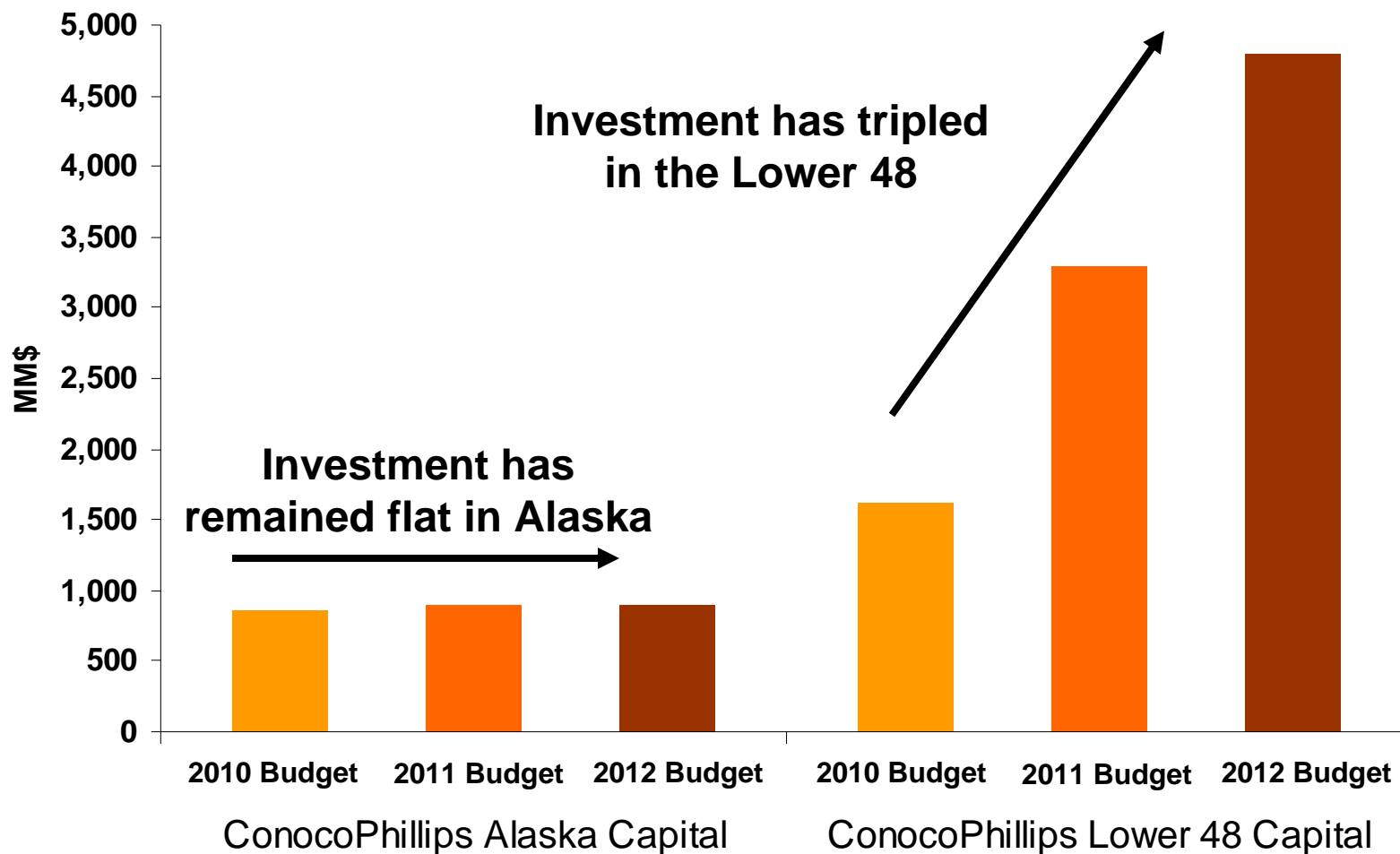
Government and Industry Marginal Share in Alaska



Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska

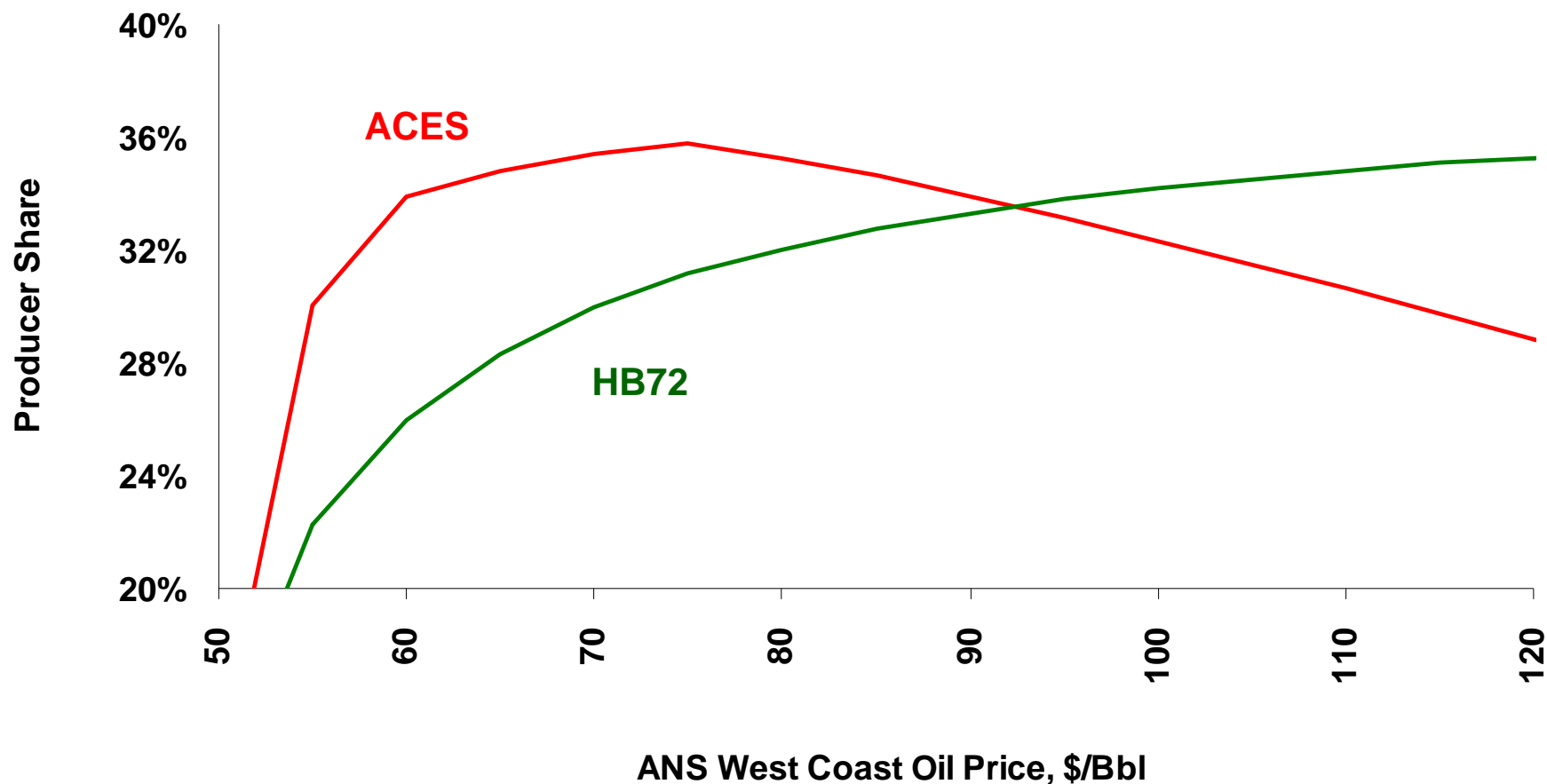


ConocoPhillips Capital Allocation



Investment flows where investor has upside

Producer Share under HB72



Recap of ConocoPhillips Perspective

▢ ACES

- Progressivity takes the upside and discourages investment
- Tax credit investment incentives positive, but do not offset the negative effects of ACES progressivity

▢ HB72 Positive Elements

- Positive step to improve Alaska's business climate
- Solves the high marginal tax problem
- Makes Alaska more competitive at \$100+ prices

▢ HB72 Areas for Improvement

- Bill does not contain sufficient investment incentives for legacy fields to offset Alaska's high cost environment
- Does not encourage investment relative to ACES in a downward trending oil price environment