
Senate Finance Committee

CSSB21

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Topics

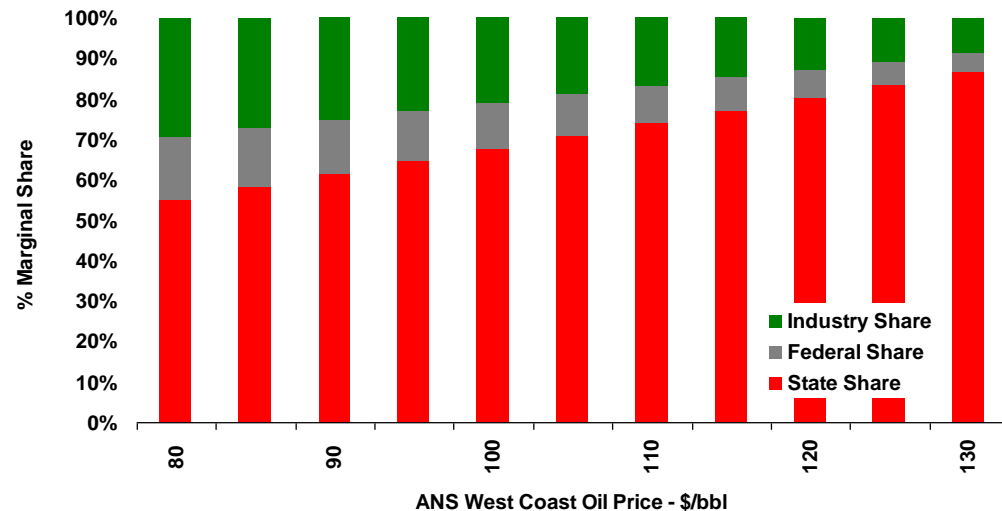
- ▢ Alaska Challenges
- ▢ CSSB21 vs ACES
- ▢ Observations

North Slope Investment Challenges

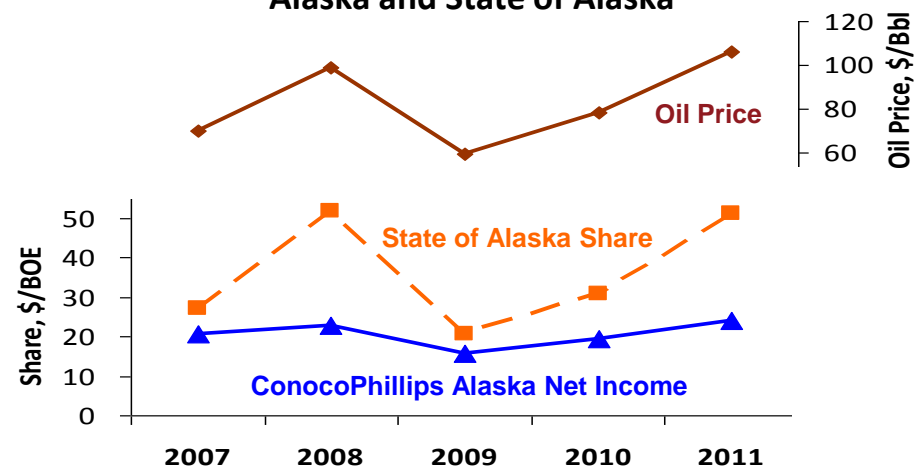
- Challenged oil remains
 - Complex, high cost wells
 - Smaller reserve targets
 - Fault blocks, flank oil
 - Satellites, viscous oil
 - Facilities handling ~ three times as much water as oil
 - Significant resource

- ACES tax structure
 - High average & marginal tax rates
 - Progressivity eliminates upside
 - Tax credits attempt to offset high tax rates and high costs. Applies to both new and legacy fields

Government and Industry Marginal Share in Alaska



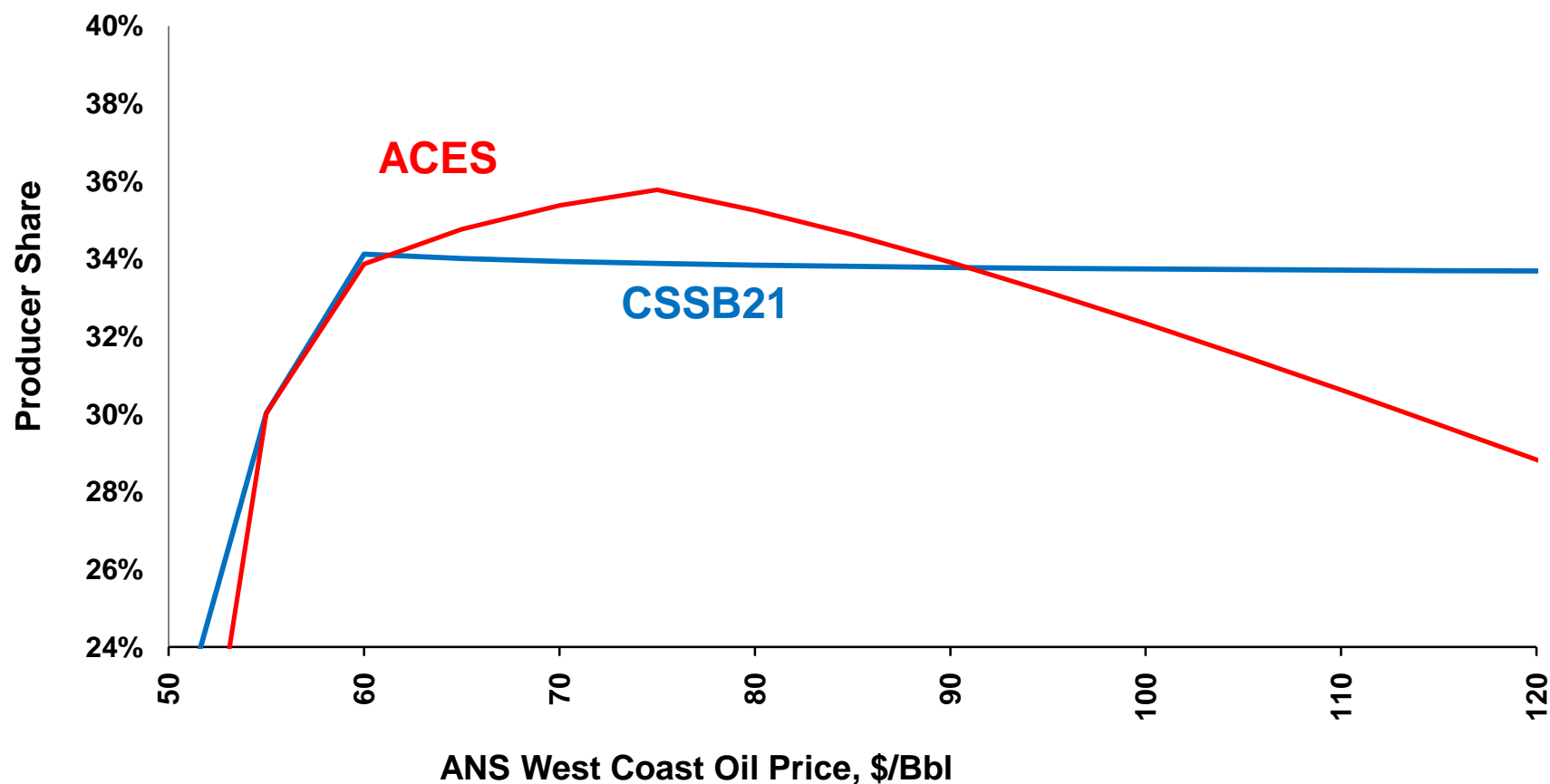
Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska



Changes to ACES to Improve Alaska's Investment Climate

| Change | CSSB21 |
|---|--|
| <ul style="list-style-type: none">• Eliminate progressivity | ✓ |
| <ul style="list-style-type: none">• Create a flatter tax rate over a broad range of prices<ul style="list-style-type: none">➤ Producer and State share proportionately as prices fluctuate and margins change | ✓ |
| <ul style="list-style-type: none">• Establish a tax structure creating an attractive investment climate<ul style="list-style-type: none">➤ Competitive tax rate➤ Provide the incentives to balance Alaska's high cost environment➤ Incentives for both legacy and new field investments | <ul style="list-style-type: none">• Issues<ul style="list-style-type: none">➤ Tax increase at lower prices – base rate too high➤ GRE will have minimal impact on legacy fields. |

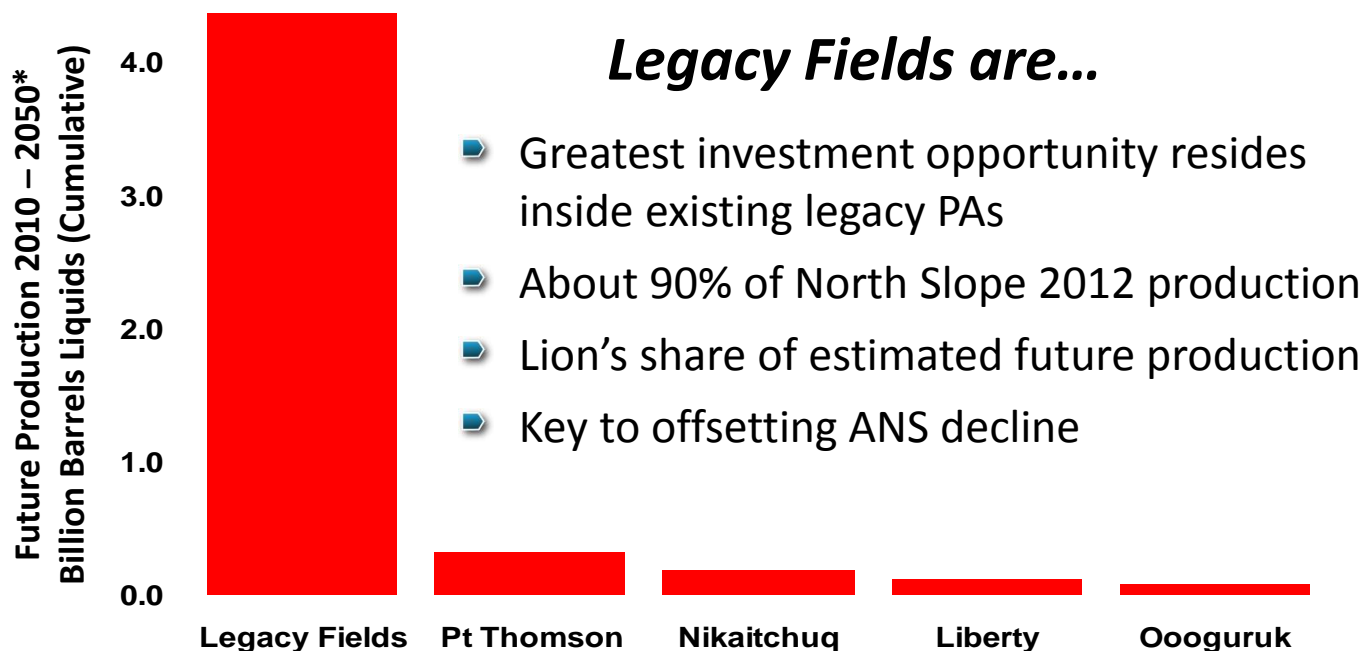
ACES vs CSSB21



CSSB21 is a tax increase relative to ACES at lower prices

Gross Revenue Exclusion

- GRE targeted primarily at new fields and extensions of existing fields
 - Extensions identified as participating area (PA) expansions
 - Legacy field PA expansions included
 - Increase to 30% is an improvement, but less effective than tax credits
- GRE will likely not have significant impact on legacy fields



Observations

► CSSB21 an improvement over ACES

- Provides relatively flat tax rate with slightly progressive nature over a broad price range
- Elimination of progressivity solves the high marginal tax problem
- Makes Alaska more attractive for investment at \$100+ prices
- Increase in GRE positive

► CSSB21 changes for an improved investment climate

- Reduce base tax rate
- Create incentives for both new and legacy fields
 - Few legacy field projects would qualify for GRE
 - Consider tax credits associated with production