

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 15, 2012

3:32 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Bert Stedman
Senator Hollis French
Senator Gary Stevens

MEMBERS ABSENT

Senator Joe Paskvan, Co-Chair
Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel
Senator Joe Thomas

COMMITTEE CALENDAR

SENATE BILL NO. 192

"An Act relating to the oil and gas production tax; and providing for an effective date."

- HEARD & HELD

PRESENTATION: OVERVIEW OF PLAN OF DEVELOPMENT BY CONOCOPHILLIPS

- HEARD

SENATE BILL NO. 176

"An Act exempting sand and gravel and marketable earth mining operations from the mining license tax; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 192

SHORT TITLE: OIL AND GAS PRODUCTION TAX RATES

SPONSOR(s): RESOURCES

02/08/12 (S) READ THE FIRST TIME - REFERRALS
02/08/12 (S) RES, FIN
02/10/12 (S) RES AT 3:30 PM BUTROVICH 205
02/10/12 (S) Heard & Held
02/10/12 (S) MINUTE(RES)
02/13/12 (S) RES AT 3:30 PM BUTROVICH 205
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02/14/12 (S) RES AT 3:30 PM BUTROVICH 205
02/14/12 (S) Heard & Held
02/14/12 (S) MINUTE(RES)
02/15/12 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

SCOTT JEPSEN, Vice President
External Affairs
ConocoPhillips Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

BOB HEINRICH, Vice President
Finance
ConocoPhillips Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

ACTION NARRATIVE

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CO-CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators French, Stedman, Wielechowski, and Co-Chair Wagoner.

SB 192-OIL AND GAS PRODUCTION TAX RATES

PRESENTATION: OVERVIEW OF PLAN OF DEVELOPMENT BY CONOCOPHILLIPS

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CO-CHAIR WAGONER announced that SB 192 was up for consideration and that there was a letter from BP in members' packets. He said that ConocoPhillips would make a presentation.

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SCOTT JEPSEN, Vice President, External Affairs, ConocoPhillips Alaska, stated that today's presentation was on the development

outlook for ConocoPhillips' operating assets on the North Slope. The presentation consists of three topics: the Greater Kuparuk Area (GKA), the Western North Slope (known as Alpine), and ACES - what can be done to make a better climate for investment.

He showed a slide of GKA and some of the surrounding units. He related that the field was started in 1981 and currently five fields are producing: Kuparuk, West Sak, Tarn, Tabasco and Meltwater. All the fields are on water flood and all but West Sak are undergoing an EOR (enhanced oil recovery) process - taking hydrocarbons and NGLs, mixed with natural gas, and injecting them into the reservoir. This helps improve the "sweep efficiency" and loosen the oil from the rocks.

He said that ConocoPhillips is also considering doing a viscosity reducing water alternating gas pilot project in the West Sak, which is currently producing 14,000 to 15,000 barrels a day. In essence, it would take Kuparuk miscible injectant and put it into the West Sak where it has the potential of reducing the viscosity. The injection of water allows for gas to be better swept out of the field.

MR. JEPSON related that there are three production facilities, 47 drill sites, and 1,149 wells which to date have produced about 2.4 billion barrels, of which, about 2.2 billion barrels have come out of GKA. There is production opportunity for a long period of time to come.

He said ConocoPhillips processes Pioneer's oil, gas, and water from the Ooguruk Field. Pioneer moves all their production to ConocoPhillips who treats it and returns some of the watered gas back to Pioneer. ConocoPhillips also has a number of other third-party processing agreements that allow explorers and other parties that want to do business inside the Kuparuk Unit to use parts of their infrastructure, such as roads, pads, and emergency services.

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MR. JEPSON turned to slide 4, which demonstrates where GKA production is coming from. In 2000, about 2,000 barrels per day were coming out of GKA. In 2011, about 50 percent of production stems from production work that has been done since 2000.

SENATOR FRENCH asked what percent the annual decline is.

MR. JEPSON replied that it was about 16 percent in 2000 and about 8 or 9 percent by 2010.

SENATOR FRENCH concluded that the current decline for the whole field, including the new production, is at about 8 percent.

MR. JEPSON said 6 to 8 percent.

He continued to say that the top layer in the graph depicts production from GKA satellites. He noted that the small graph on slide 4 shows the total water and oil production. Water production is increasing and drives up the cost of production. Also depicted is the total oil, water, and gas production in GKA fields in 2011. Total gas produced per day is about 600 million cubic feet.

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MR. JEPSON explained that slide 5 outlines GKA's work plans for 2012. There are plans to continue coil tubing drilling with the rig that was built in 2009, as well as to continue rotary drilling. Also planned is an expansion of water injection at CPF1 and use of a new Shark Tooth appraisal well.

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SENATOR FRENCH asked what type of oil is expected from the Shark Tooth.

MR. JEPSON replied that it is conventional oil.

SENATOR FRENCH inquired what that development might lead to.

MR. JEPSON said it could develop into a new drill site with multiple wells, depending on production risks and costs.

CO-CHAIR WAGONER asked where it is located.

MR. JEPSON said it was located north of Tarn.

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MR. JEPSON continued to say there was a plan to evaluate the 220 square miles of recently acquired seismic shoot. He noted there have been five seismic surveys of GKA. The strategy is to look for indications where the water flood is progressing to the field.

He reported on another plan to evaluate enhanced recovery techniques, such as fresh water injection.

CO-CHAIR asked if water injection washes oil off the rocks like carbon dioxide would.

MR. JEPSON said it did not.

He continued to explain that another enhanced recover technique used deep penetration polymers which could seal off water zones.

MR. JEPSON described GKA's maintenance and renewal work plans: upgrade the Kuparuk airport, continue the smart pig program, and maintain the external monitoring program to look for corrosion.

SENATOR WIELECHOWSKI asked if the maintenance and renewal plans are eligible for tax credits under ACES.

MR. JEPSON explained the category of capital improvements for ACES.

SENATOR WIELECHOWSKI asked if the previous examples would fit that definition.

BOB HEINRICH, Vice President, Finance, ConocoPhillips Alaska, answered the question. He explained that the runway project would qualify as a capital project. The smart pig project has both capital and operating components.

MR. JEPSON continued to discuss GKA work plans. He noted that some of the infrastructure needs to be upgraded or replaced due to the extended life of the fields.

CO-CHAIR WAGONER asked if GKA has more producible oil than it was originally thought to have, or if it is just taking longer to produce it.

MR. JEPSON responded that there is much more oil than was anticipated.

He related the plan to use a workover rig to repair broken wells. There is also ongoing operation and maintenance work.

CO-CHAIR WAGONER asked for the total number of production wells in Kuparuk.

MR. JEPSON said there were about 600 wells.

He said he was not in the position to reveal the total capital budget for Kuparuk; however, 70 percent of it is going toward maintenance and 30 percent to development.

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MR. JEPSEN turned to a project that has been impacted by ACES called West Sak, a viscous oil site. The West Sak core area depicted on slide 6 has about 100 wells, many of which are horizontal wells. He called the 1J area the best part of West Sak, yet there were a lot of problems with it, such as water breakthroughs and high costs.

He related that the next best part of West Sak targeted to be developed is the Eastern Northeast West Sak (NEWS). The capital cost will be around \$1 billion to \$2.5 billion and could lead to one or two new well pads with up to 115 new wells with as many as 150 million barrels of incremental gross oil recovery. This area, however, is technically challenged and there may be sand control issues and matrix bypass events - water breakthroughs. Several techniques will be used to combat technical challenges in Eastern NEWS.

He listed issues the company will consider when investing in Eastern NEWS: technical risk, production risk, operation risk, and the fiscal environment in Alaska.

SENATOR WIELECHOWSKI asked if the reason ConocoPhillips is not moving forward on this project is ACES.

MR. JEPSEN clarified that ConocoPhillips will likely move forward with a portion of the project, but ACES takes away the upside.

SENATOR WIELECHOWSKI asked how many barrels are expected out of 1J per day.

MR. JEPSEN replied about 15-20 percent.

SENATOR WIELECHOWSKI inquired about the net present value and internal rates of return under ACES for the 150 million barrels per day expected from Eastern NEWS.

MR. JEPSEN stated that he can't share the numbers with the committee. He pointed out that ConocoPhillips also considers long-term cash flow and net income, which ACES limits.

SENATOR WIELECHOWSKI maintained that the state is trying to ensure that it receives maximum value for oil resources. He asked if Mr. Jepsen would be willing to share internal data with DOR or with individual legislators on a confidential basis in order to assess the data under various financial scenarios.

MR. JEPSEN said it was problematic to do so on a project basis. He noted he was willing to share data on a portfolio basis.

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MR. HEINRICH added that ConocoPhillips does not share proprietary information with partners, either.

SENATOR WIELECHOWSKI requested modeling from ConocoPhillips in order to strike a fair balance between the state's and the oil company's needs. He stressed that without information the legislature has a hard time providing tax breaks.

MR. JEPSEN suggested that relevant information would be forthcoming in the presentation.

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MR. JEPSEN concluded that the ultimate size of the Eastern NEWS project will depend on if the upside offsets the downside financially under ACES.

He informed the committee that ConocoPhillips has an interest in heavy and viscous oil in many areas of the Western West Sak. These areas are shallower, heavier, and colder making it very difficult to use conventional technology. He suggested that the legislature look at the prospectivity of heavy oil very cautiously. The Ugnu area is even more challenged with permafrost issues where thermodynamics are counterproductive.

CO-CHAIR WAGONER asked if UAF is involved in any joint research projects related to heavy oil production.

MR. JEPSEN said he wasn't aware of any heavy oil research efforts by UAF.

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MR. JEPSEN moved on to Western North Slope (WNS), or Alpine, Development which first came into production in 2000. It was the largest U.S. onshore discovery since the 1970's. There are four producing pools, Alpine, Fiord, Nanuq, and Quannik, all of which are on the water flood, and all except Quannik are undergoing EOR. When the field was first found, the gross ultimate recovery

was about 400 million barrels. Twelve years later, it is still producing about 77,000 barrels per day and it has exceeded the initial gross ultimate recovery.

MR. JEPSEN turned to slide 8 in order to show the impact that ongoing drilling has on field rate in the WNS. The graph shows WNS oil production field rates by year, as well as how much oil, gas, and water is produced from each site. The total amount of gas handled is 185 million cubic feet per day.

SENATOR FRENCH mentioned that he toured the Alpine field several years ago and Sean Parnell from ConocoPhillips was his tour guide.

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MR. JEPSEN discussed ConocoPhillips' work plans for WNS. There will be continued rotary drilling of extended-reach horizontal wells, an ongoing stimulation program, a CD3 facility upgrade, and CD5 (Alpine West) development. He noted that the wells in WNS are technically difficult.

SENATOR FRENCH said he was excited about the development of CD5. He requested the estimate of capital costs for the project.

MR. JEPSEN replied that it would be about \$600 million, but there will be a new cost estimate by the end of the year that will be more.

SENATOR FRENCH asked how much more it might be.

MR. JEPSEN did not know.

He pointed out the artist's rendering of what the new bridge might look like - slide 9.

CO-CHAIR WAGONER asked about the cost of the bridge project.

MR. JEPSEN did not have that number.

MR. HEINRICH added that the bridge is being engineered to accommodate conditions of the permit.

MR. JEPSEN said permit requirements have increased the cost.

SENATOR FRENCH asked for an estimate of the expected production from CD5.

MR. JEPSEN replied that ConocoPhillips has not publicly talked about the reserve estimate for CD5.

He discussed development plans for CD5, which could lead to up to 33 well slots with production starting in late 2015. He addressed the decision to develop CD5 long before ACES came into play. ConocoPhillips decided that if they were to receive the permit for CD5, they would develop it.

SENATOR STEDMAN requested the capital costs for CD5.

MR. JEPSEN reiterated the cost estimate of \$600 million which would be revised by the end of the year.

MR. HEINRICH added that there were changes in the rate markets, also.

SENATOR STEDMAN requested the net costs.

MR. HEINRICH said he didn't have that information.

SENATOR STEDMAN asked if it would be substantially less than \$600 million.

MR. HEINRICH replied that it would be reduced by the capital credit program.

CO-CHAIR WAGONER requested that Mr. Jepsen provide those cost figures.

MR. JEPSEN asked if Senator Wagoner was looking for a number related to the 20 percent capital credit.

CO-CHAIR WAGONER said the request includes any credits that apply to the project.

SENATOR STEDMAN addressed the progressivity rate, the 20 percent capital credit, federal income tax deductions, and others that could result in 90 percent write-offs for the project. He stressed the need for balance when evaluating costs and credits when trying to adjust the fiscal environment.

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MR. HEINRICH offered to provide an illustrative example of final costs.

SENATOR STEDMAN opined that it would be good to understand the basic mechanics without the need for specific numbers.

MR. HEINRICH pointed out that one of the challenges with progressivity in ACES is that the "front end" capital credits provide benefits, but the production is burdened with the higher tax rates over time.

SENATOR FRENCH voiced appreciation for the testimony from Mr. Jepson and Mr. Heinrich. He stressed the intense need for information in order to make the best decisions possible for Alaska.

CO-CHAIR WAGONER noted BP will have a presentation next week.

SENATOR WIELECHOWSKI inquired how long it would take for start-up in CD5, what the "ramp up" would be, and how long it would take.

MR. JEPSEN reiterated that CD5 would come on stream in about 2015. He said he did not have a detailed production profile.

CO-CHAIR WAGONER added that Exxon would also have a presentation next week.

MR. HEINRICH pointed out that the production estimate is not intended to be the ramp up range; it is the estimated peak production.

SENATOR WIELECHOWSKI asked if CD5 is going forward regardless of a proposed tax change.

MR. JEPSEN reiterated that the engineering is currently being done and then the project would be taken to the board of directors and management to decide whether to go forward. He said they are not recommending not doing it because of ACES.

SENATOR WIELECHOWSKI asked if there are projects that have not been recommended because of ACES.

MR. JEPSEN explained that ConocoPhillips has an inventory of projects that are being considered based on a number of criteria.

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SENATOR WIELECHOWSKI requested a list of projects not recommended because of ACES.

MR. JEPSEN referred to a letter that discussed projects that would go forward if ACES was changed.

SENATOR STEDMAN requested an explanation of the processing facilities and the constraints faces both above and below ground. He wanted information on throughput bottlenecks.

MR. JEPSEN used Kuparuk to explain wells with high gas to oil ratios and high water to oil ratios, which both negatively impact production. The solution is to drill new wells that have neither.

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MR. JEPSEN reported on drilling challenges that lead to higher well costs - slide 11. The graph shows well costs in 2011 dollars, now, and in the past. Today, wells are more complex and the targets aren't as large, which has resulted in a 340 percent average increase in well costs.

CO-CHAIR WAGONER asked how thick the seam is on laterally drilled wells.

MR. JEPSEN replied that they are typically 10 to 15 feet wide.

SENATOR WIELECHOWSKI asked where the \$350 million ConocoPhillips invested last year went.

MR. JEPSEN thought Senator Wielechowski was referring to an earlier presentation by Mr. Garland and said he stood by that number.

SENATOR WIELECHOWSKI repeated the question.

MR. JEPSEN explained that ConocoPhillips does not publically provide that information; however, DOR has it.

SENATOR WIELECHOWSKI concluded that even though drilling costs increased by 340 percent, ConocoPhillips invested \$350 million in 2011, all at very good returns.

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MR. HEINRICH suggested that the statement should be taken from the perspective of the corporate viewpoint. Over 50 percent of production comes from gas business, and gas prices have been substantially lower than in prior years. Returns from Alaska, relative to the corporate average, are higher and make

corporations look good. He explained cash margins to make his point.

SENATOR WIELECHOWSKI stated that ConocoPhillips produces 240,000 barrels of oil equivalent a day with strong cash margins. He asked if Mr. Heinrich agreed.

MR. HEINRICH agreed, relative to the corporate average, which includes gas production.

SENATOR WIELECHOWSKI summarized that ConocoPhillips has strong cash margins and very good rates of return in Alaska.

MR. HEINRICH again agreed, relative to the corporate average, which includes gas production.

SENATOR WIELECHOWSKI asked how much profit ConocoPhillips has made in Alaska since ACES went into effect. He suggested it was about \$10 billion.

MR. JEPSEN said that was correct.

SENATOR WIELECHOWSKI asked if 13 percent of ConocoPhillips' worldwide production and 30 percent of their worldwide profit comes from Alaska.

MR. HEINRICH said with last year's higher oil prices and lower gas prices, those figures sound correct.

MR. JEPSON added that ConocoPhillips also paid a large amount in severance taxes and royalties.

MR. HEINRICH stated that for every \$1 of income, ConocoPhillips pays about \$2 in production taxes and royalties, so over that same time frame, ConocoPhillips paid about \$20 billion.

MR. JEPSEN returned to development outlook and summarized that drilling costs have increased and what was easy oil is now hard oil.

He turned to slide 12 to summarize the development of GKA and WNS. The near term focus is on light oil and some of the viscous oil in West Sak. The technology regarding light oil is available and there is greater potential to add near term rate.

He said that technical advancements have been made regarding viscous oil; however, the right balance of risks and rewards

must be present in order to develop the viscous oil. Heavy oil technologies are being evaluated but are not near term projects. ConocoPhillips is doing exploration and satellite development in Alaska, which will also require consideration of risks and rewards. He mentioned that ConocoPhillips bought additional leases in the state lease sale. He hoped that the fiscal climate would change enough to allow for new investments.

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CO-CHAIR WAGONER asked if ConocoPhillips is looking at developing Beaufort Sea leases.

MR. JEPSEN related that the company recently relinquished several Beaufort Sea leases. He did not know what remained. The focus is currently on the Chukchi Sea.

SENATOR STEDMAN inquired about expected capital expenditures in FY 2013 through FY 2016. He asked if there was much of a change since the last submission of data.

MR. JEPSEN reported that ConocoPhillips has been fairly flat in terms of total capital investment in 2010 and 2011. He predicted that the next data would show a similar result.

SENATOR STEDMAN rephrased the question. He stated that he has the aggregate number for FY 13 of \$3,018,000,000 expected statewide from all companies. He asked if there has been any change of course in recent months, or if the projection is reasonable.

MR. HEINRICH explained that ConocoPhillips has historically spent in the \$700 million to \$800 million range the last several years for capital expenditures in Alaska. He pointed out that within the FY 13 to FY 15 estimate is the increment addition from the CD5 project.

SENATOR STEDMAN concluded that not much has changed in the last six months. In the past there has been conflicting testimony regarding that issue.

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MR. HEINRICH discussed aspects of ACES the industry sees as impediments to investment - slide 13. He showed a chart of government and industry average share in Alaska. He said he used the price of \$30 per barrel of oil as the cost structure. He related that he used DOR data accounting for tax credits from an

industry perspective. The increase of total take is due to the progressivity feature in ACES.

SENATOR FRENCH asked if ConocoPhillips pays about 30 percent as an effective tax rate.

MR. HEINRICH said that sounds correct for ACES.

SENATOR FRENCH asked if ConocoPhillips pays a 35 percent federal tax rate.

MR. HEINRICH said absolutely. ConocoPhillips happens to be one of the largest taxpayers in the U.S. Its corporate tax rate for 2010 was a little over 42 percent and included state and federal taxes, but excludes production taxes.

SENATOR STEDMAN said he would wait to see how those calculations come out. He predicted they would be closer to 25 or 30 percent. He noted testimony in previous hearings which suggested adjusting the progressivity.

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SENATOR STEVENS joined the committee.

MR. HEINRICH opined that the competitive rate is found at a much lower price than \$120 oil. He added that it is hard to pinpoint a particular price without the context of other levers embedded in ACES.

SENATOR STEDMAN thought the problem was the continuous lessening of the industry's share and that the industry thought there should be a flat marginal rate such as in Norway.

MR. HEINRICH agreed that progressivity is the problem.

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SENATOR WIELECHOWSKI asked if there were points under ACES where the government take is fair.

MR. JEPSEN replied that at the \$60 and \$70 lower end of the range, where it is closer to the 25 percent statutory rate, is where ConocoPhillips is making large investments. He maintained that the governor's proposal of bracketing takes away the issue of progressivity and is simple and straightforward. Legislation such as HB 110 would serve to allow the industry to look more favorably upon the risk/reward balance.

SENATOR WIELECHOWSKI requested clarification of the \$60 to \$70 range.

MR. JEPSEN noted that area was closer to the statutory rate of ACES and is similar to the balance found in other regimes.

SENATOR WIELECHOWSKI pointed out that the government take is not that low in HB 110.

MR. JEPSEN corrected that he was describing what he would like to see. The governor's bill is a good first step.

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MR. HEINRICH described slide 14, the government and industry marginal share in Alaska. The marginal rate is the impact of the incremental dollar. For example, at the \$110 mark on the graph, the increase in price from \$110 to \$111 results in about 80 percent of the incremental dollar going to taxing authorities and 20 percent remaining for the investor.

SENATOR STEDMAN disagreed. He noted that the previous slide shows the effective tax rate at 25 percent to 30 percent.

MR. JEPSEN asked if Senator Stedman was referring to ACES versus the total tax burden.

SENATOR STEDMAN said yes.

MR. HEINRICH clarified that the graph shows the total tax, but the increases are driven by the progressivity element of ACES.

MR. JEPSEN pointed out that when ConocoPhillips looks at taxes, they look at the entire tax burden. He agreed that the PPT value is less than 80 percent, but ACES drives the marginal tax rate so high.

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MR. HEINRICH drew attention to slide 15 which shows how industry earnings in Alaska are limited. Using DOR data, the industry created a model to show how earnings are affected over price ranges. The graph includes all taxes and shows that the differences are driven by the progressivity element which changes tax rates over prices. At \$80 to \$120 oil, which is where oil prices have recently been, the industry earnings are essentially flat. ConocoPhillips' earnings mirror that line. As oil prices increase, the earnings should increase, and that is not happening under the current structure.

MR. JEPSEN noted that the graph also includes the predicted earnings under HB 110, which are slightly better under ACES, but enough to change the balance of risk/reward.

MR. HEINRICH said the company recognizes that SB 192 is just a placeholder. Slide 16 demonstrates why marginal take is important. At \$135, oil industry earnings become negative under SB 192.

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MR. HEINRICH discussed why progressivity is the problem and showed how investment has remained flat. He compared investment spending in Alaska with that in the Lower 48, which was up by 104 percent. He noted that 2012 is predicted to have a flat capital expenditure profile in Alaska. ConocoPhillips continues to invest about \$9 million in Alaska each year, but could invest more under an improved fiscal structure.

SENATOR STEDMAN recalled that it has been recommended to the Senate Finance Committee that the state adjust the ACES tax structure to deal with light oil. He questioned if that adjustment should be structured to include heavy oil, similar to heavy oil plays in Alberta and North Dakota, according to yesterday's testimony.

MR. JEPSEN answered that Bakken and Eagle Ford are not similar to the heavy oil found in Alaska, but are similar to Alaska's light oil.

CO-CHAIR WAGONER clarified that yesterday's discussion centered on the cost of fracking shale plays and the suggestion was to lower the tax structure. He agreed that Bakken and Eagle Ford had light oil and Alberta had heavy oil.

MR. JEPSEN pointed out that what is produced in Alberta is entirely different than what is produced on the North Slope.

He agreed that Alaska should have a tax structure similar to the one at Eagle Ford and Bakken.

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MR. HEINRICH concluded by reaffirming statements ConocoPhillips CEO, Jim Mulva, and ConocoPhillips Alaska President, Trond-Erik Johansen, made about capital investments to be made in Alaska if the business environment improves. The following commitments were made: more effort to bring challenged oil to market from

increased drilling activity, pursuit of more satellite developments at Alpine and Kuparuk, and pursuit of major projects in existing fields. He stated that \$5 billion would be invested in the next three to five years if there is a meaningful fiscal change.

SENATOR WIELECHOWSKI countered that after Mr. Mulva came to Alaska and made that statement, Senator Wielechowski ran some numbers on the proposal to invest \$5 billion and concluded that it would result in a 60 percent tax credit deduction resulting in a \$2 billion investment. Also, ConocoPhillips would make \$3 billion in profits at a 92.58 percent rate of return. He asked Mr. Jepsen if he agreed.

MR. JEPSEN opined that the proposed projects did not have those rates of return. He stated that it was not possible to do a one-to-one comparison due to the proprietary nature of the numbers. He offered to look into it.

SENATOR WIELECHOWSIK said the analysis was done under ACES. He requested more information if Mr. Jepsen disagreed with the numbers.

SENATOR FRENCH asked if the \$5 billion was a ConocoPhillips pledge or an industry pledge by the Big Three.

MR. JEPSEN said it was a gross number.

He addressed Senator Stedman's previous question about making fiscal frameworks in Alaska the same as those in the Lower 48. He said that ConocoPhillips looks at the total tax burden and there are differences in royalty rates and severance taxes. He emphasized that when he talks about a similar fiscal framework he is not talking about a single component, but rather about the total tax burden.

CO-CHAIR WAGONER requested clarification of the timeframe of the \$5 billion pledge.

MR. JEPSEN clarified that it was \$5 billion over three to five years, in addition to what ConocoPhillips is currently spending.

SENATOR STEDMAN agreed the legislature needs to look at the "entire puzzle", but also at the prospectivity of the basin, in addition to the tax structure.

MR. JEPSEN agreed. He observed that the average field size has decreased and costs have increased in Alaska.

SENATOR FRENCH opined that the reason some are legislators are considering state direct financial participation is because under HB 110 it's hard to see how the state wins.

MR. JEPSEN said he believes if the state changes the tax structure there will be a near term drop in state revenue, but higher production and revenues in the future with a stronger economy and more jobs.

CO-CHAIR WAGONER thanked the presenters.

SB 192 was held in committee.

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There being no further business to come before the committee, CO-CHAIR WAGONER adjourned the Senate Resources Standing Committee at 5:01 p.m.