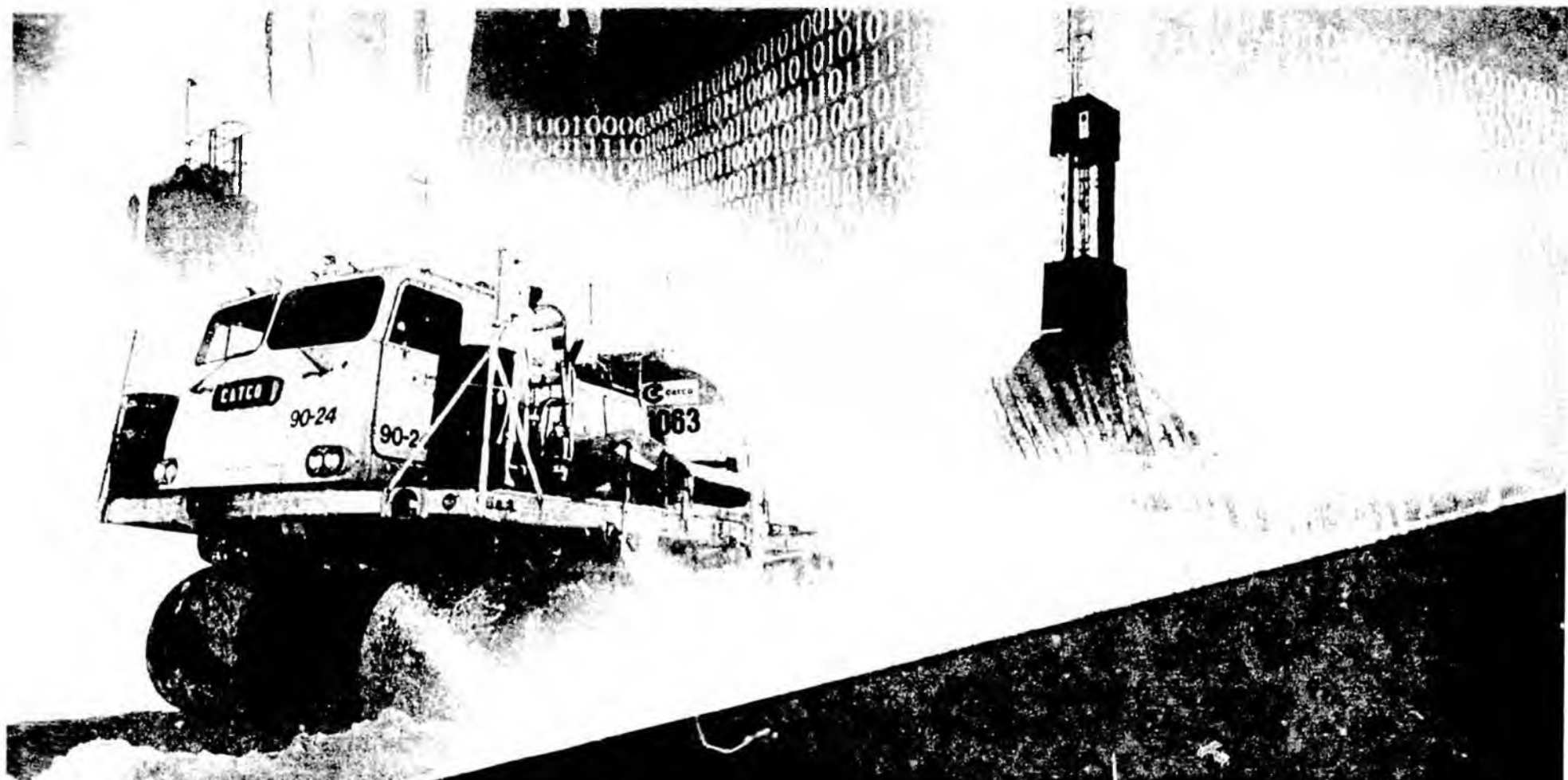


**SB**

**2001**

**(FILE 21)**

**ANADARKO**



**ACES**

**Anadarko**   
Petroleum Corporation

Senate Resources  
October 23, 2007

# APC Operational Overview

## Rockies

- Large acreage holdings

## International

- World class targets
- Focused exploration



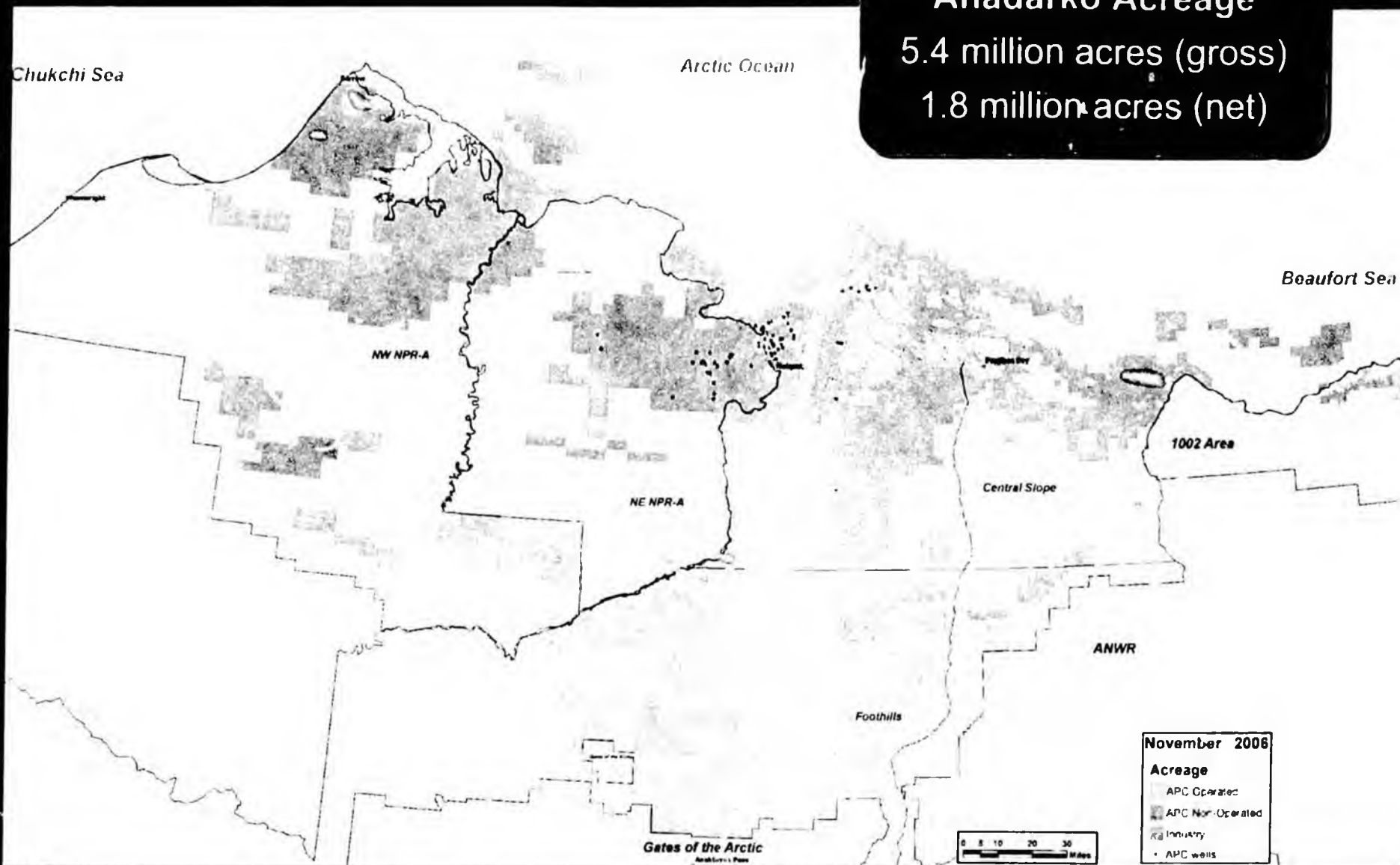
## Gulf of Mexico Deepwater

- Significant Acreage position

- ◻ Exploration Areas
- ◻ Producing Areas

# Anadarko's Investment in Alaska-Land

Anadarko Acreage  
5.4 million acres (gross)  
1.8 million acres (net)



# Alaska Opportunities

- ▶ **World class petroleum basin**
- ▶ **Significant remaining resource potential**
- ▶ **Legacy type prospectivity (i.e. Anchor Fields)**
- ▶ **New entrants/partnering opportunities**
- ▶ **APC possesses tangible competitive advantages**

# Alaska Challenges

- ▶ **Maturing basin/materiality/smaller prospects**
- ▶ **High costs**
- ▶ **Lack of infrastructure and competition**
- ▶ **Extremely long lead-time exploration**
- ▶ **Seasonal drilling & regulatory timing requirements**
- ▶ **Distance from market**
- ▶ **Lack of gas transportation**

## Our View of PPT & Recap of 2006 Testimony

- ▶ **Significant tax increase at existing fields**
  - *Can be offset by increased exploration & development investment*
  
- ▶ **Improvement in exploration economics versus elf system encourages new investment**
  - *Credits help reduce high costs & improve NPV*
  - *25 – 20 worse than old elf system*
  
- ▶ **On balance supportive of PPT system**

# Support Net Profits Approach

- ▶ **Appreciate Administration work to evaluate gross vs. net and conclusion to stick with net**
- ▶ **Net considers varying economics & costs**
  - *Tax paid on net income after costs*
  - *Accounts for costs and levels playing field*
  - *Still doesn't account for risk*
- ▶ **Gross collects on income regardless of profit**
  - *Gross tax with proper incentives harder to develop equitably and still complicated to administer*
- ▶ **Royalty acts like a gross tax**

# Our View of ACES- Negatives Outweigh Positives

## ➤ Support some parts of ACES

- Expand time to qualify for Exploration Incentive Credits (offset by new exclusions and requirements)
- Modify Net Loss carry forward to create level playing field
- Goal of increased transparency & state auditor capability

## ➤ Stability

- Concern that PPT/ACES will be revisited again in next few years to deal with gas
  - Gas definitely needs to be addressed, but will reopen everything again

## ➤ The significant tax increases would decrease exploration & development economics and far outweigh any positives in the bill

- Tax rate increase
- Tax escalator changes increase costs
- Transition Investment Expenditure Credits Elimination
  - Fairness and Investment Impact



# Administration Field Economics Estimates

Table below from Sept 4, 2007 Administration Presentation

<b>Project Net Present Value of Cash Flows (10% Discount Rate)</b>				
<b>\$40 Test Price (\$ Millions)</b>				
	<b>Status Quo PPT</b>	<b>ACES Plan</b>	<b>16% Gross Tax No Capital Credits</b>	<b>19% Gross Tax With Capital Credits</b>
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282
<i>Production Tax Revenues FY2008 @ \$60 oil price</i>	<b>\$1.3B</b>	<b>\$2.0B</b>	<b>\$2.1B</b>	<b>\$2.0B</b>

- ▶ **Project Economics decrease by 33% to 54%**
- ▶ **What geologic & commercial risks were assigned?**
- ▶ **Where are dry holes & failed projects accounted for?**

# Summary

- ▶ **Significant tax increases outweigh any potential benefits**