

SB

2001

(FILE 25)

CONOCO

PHILLIPS

SB2001 Testimony

October 24, 2007

ConocoPhillips Alaska

Kevin Mitchell

Vice President, Finance & Administration

Jim Taylor

Vice President, Commercial Assets

ConocoPhillips in Alaska Today

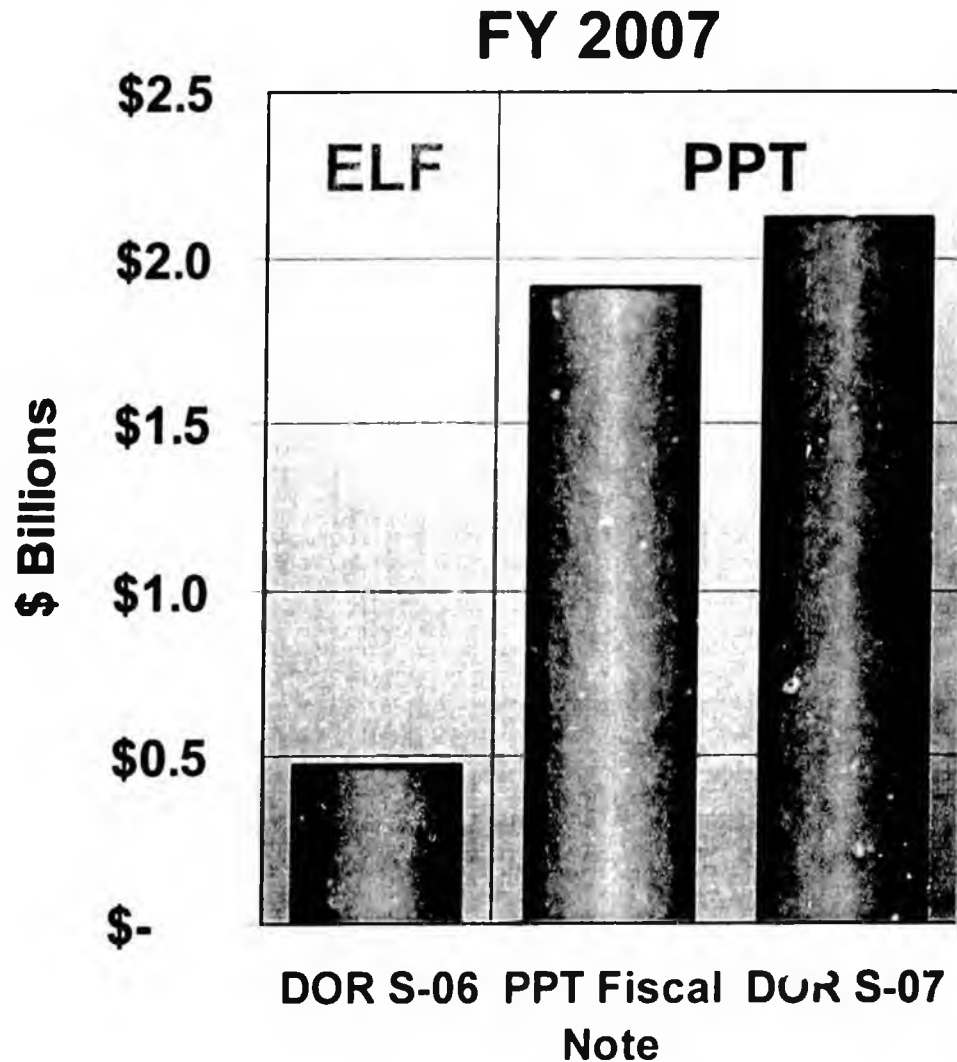


- **Alaska's Largest Producer**
 - 2006 oil production: 280,000 barrels of oil per day
 - 2006 gas production: 145 million cubic feet per day
- **Alaska's Largest Lease Holder**
 - Interest in 1.7 million gross (federal) acres in the NPRA
 - Nearly 2.6 million gross undeveloped acres in total outside of producing fields
- **Alaska's Leading Explorer**
 - 60 exploration wells since 1999, including 17 wells in NPRA
- **Alaska's Largest Industry Community Supporter**
 - 2006 > \$12 Million Contributions
 - 2007 > \$14 million (projected)
- **Alaska's Largest Royalty and Taxpayer**
 - 2006 taxes paid to government: \$2.3 billion
 - 2006 royalties: \$730 million

Summary Comment

- Interest between state and industry should be aligned
- Too early to change PPT
- Tax changes will impact investment
 - Increased tax take
 - Effect of 10% legacy floor
 - Uncertainty with frequent tax changes

Revenue Forecasts



Revenues meeting targets despite forecasting uncertainty associated with:

- Price
- Production
- Operating costs
- Capital costs

Too early to change

Impact of the 10% Legacy Floor

- The 10% minimum gross on the legacy fields can have a broader impact than simply downside price protection
- Minimum tax can be triggered by:
 - Low prices
 - Investment

Base Rate vs 10% Legacy Floor

Level of Investment

Low

Base Tax Calculations

Wellhead Revenue	
- Opex	
- Capex	
<hr/>	
= Net Profit	
<hr/>	
25% Net Profit Tax	
- 20% Capital Credits	
<hr/>	
= Net Tax After Credits	

\$ 50.00	
\$ (10.00)	
\$ (10.00)	
<hr/>	
\$ 30.00	
<hr/>	
\$ 7.50	= 25% * \$30
\$ (2.00)	= 20% * \$10
<hr/>	
\$ 5.50	

Min Tax Calculations

Wellhead Revenue	
x Gross Tax Rate	
<hr/>	
= Min Tax (\$)	

\$ 50.00	
10%	
<hr/>	
\$ 5.00	

Net Exceeds Min:

Tax Due = \$5.50

Investment Can Trigger Legacy Floor

	Level of Investment	
	Low	Potential
Base Tax Calculations		
Wellhead Revenue	\$ 50.00	\$ 50.00
- Opex	\$ (10.00)	\$ (10.00)
- Capex	\$ (10.00)	\$ (20.00)
= Net Profit	\$ 30.00	\$ 20.00
25% Net Profit Tax	\$ 7.50	\$ 5.00
- 20% Capital Credits	\$ (2.00)	\$ (4.00)
= Net Tax After Credits	\$ 5.50	\$ 1.00
Min Tax Calculations		
Wellhead Revenue	\$ 50.00	\$ 50.00
x Gross Tax Rate	10%	10%
= Min Tax (\$)	\$ 5.00	\$ 5.00

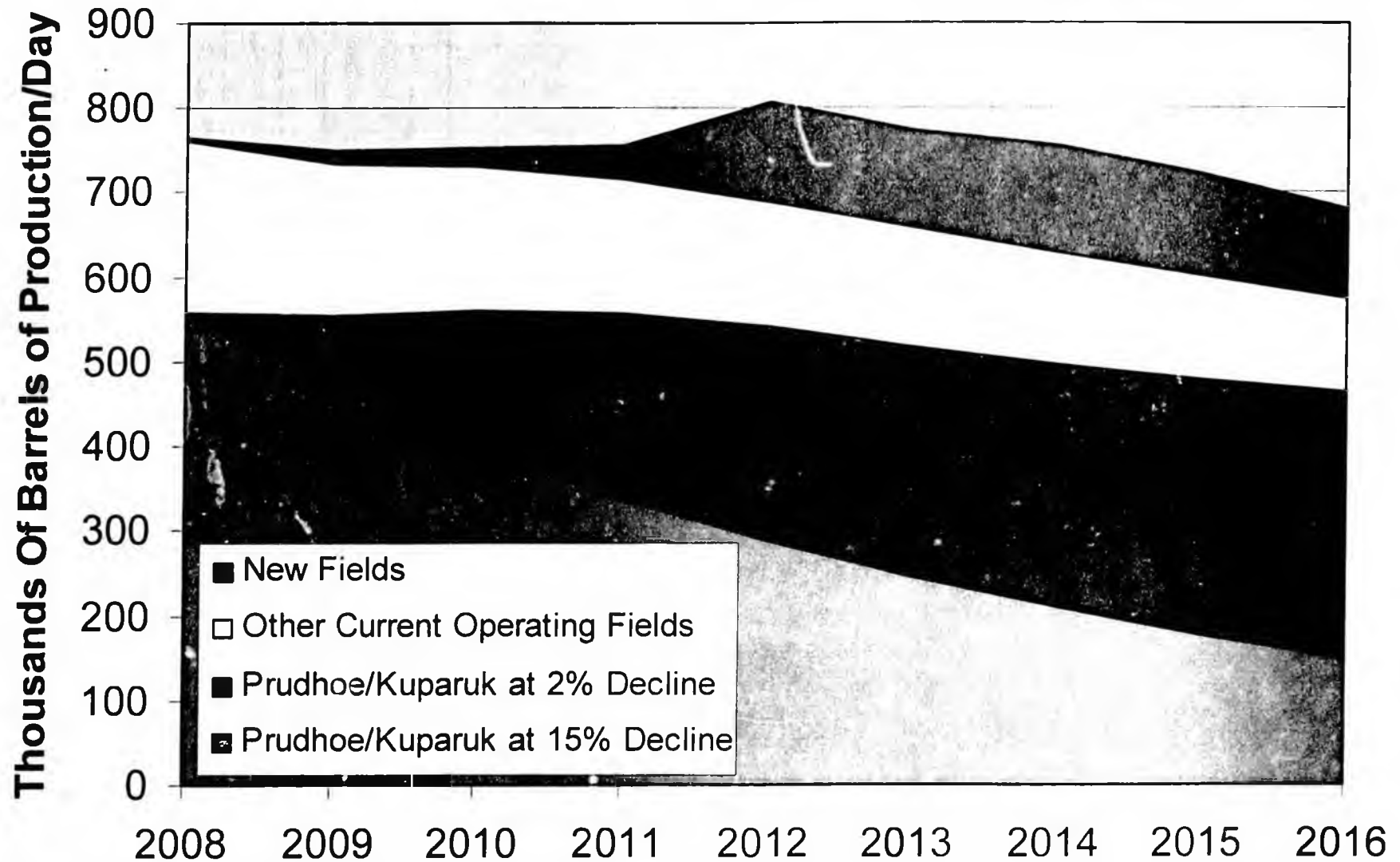
Min Exceeds Net:
Tax Due = \$5.00

Potential Kuparuk Tax Calculation

	Level of Investment	
	DOR	Potential
Base Tax Calculations		
Wellhead Revenue	\$ 2,800	\$ 2,800
- Opex	\$ (450)	\$ (450)
- Capex	\$ (400)	\$ (800)
= Net Profit	\$ 1,950	\$ 1,550
25% Net Profit Tax	\$ 488	\$ 388
- 20% Capital Credits	\$ (80)	\$ (160)
= Net Tax After Credits	\$ 408	\$ 228
Min Tax Calculations		
Wellhead Revenue	\$ 2,800	\$ 2,800
x Gross Tax Rate	10%	10%
= Min Tax (\$)	\$ 280	\$ 280

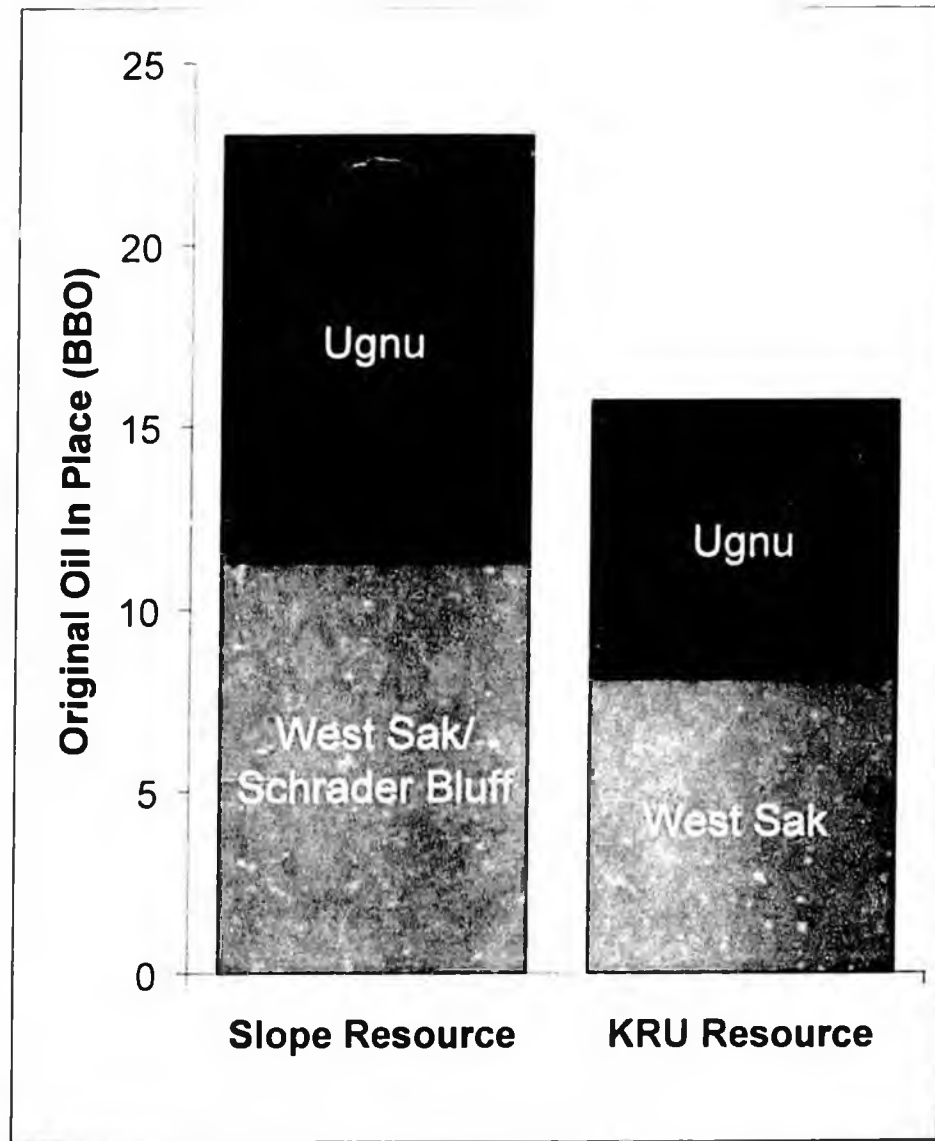
Data based on State DOR Spring Revenue Forecast 2007 for Kuparuk 2009 production and wellhead price Opex of \$7.75/bbl and capex of \$6.81/bbl based on Aug 3, 2007 PPT Status Report

Significance of Legacy Assets

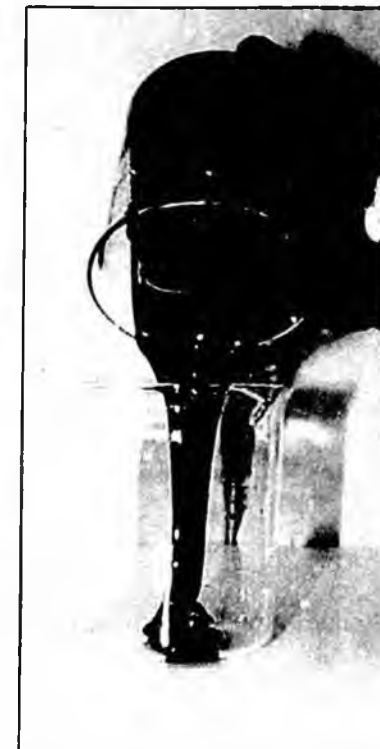


Department of Revenue 2007 Spring Forecast

The Prize: North Slope Heavy Oil Resources



19 API Crude

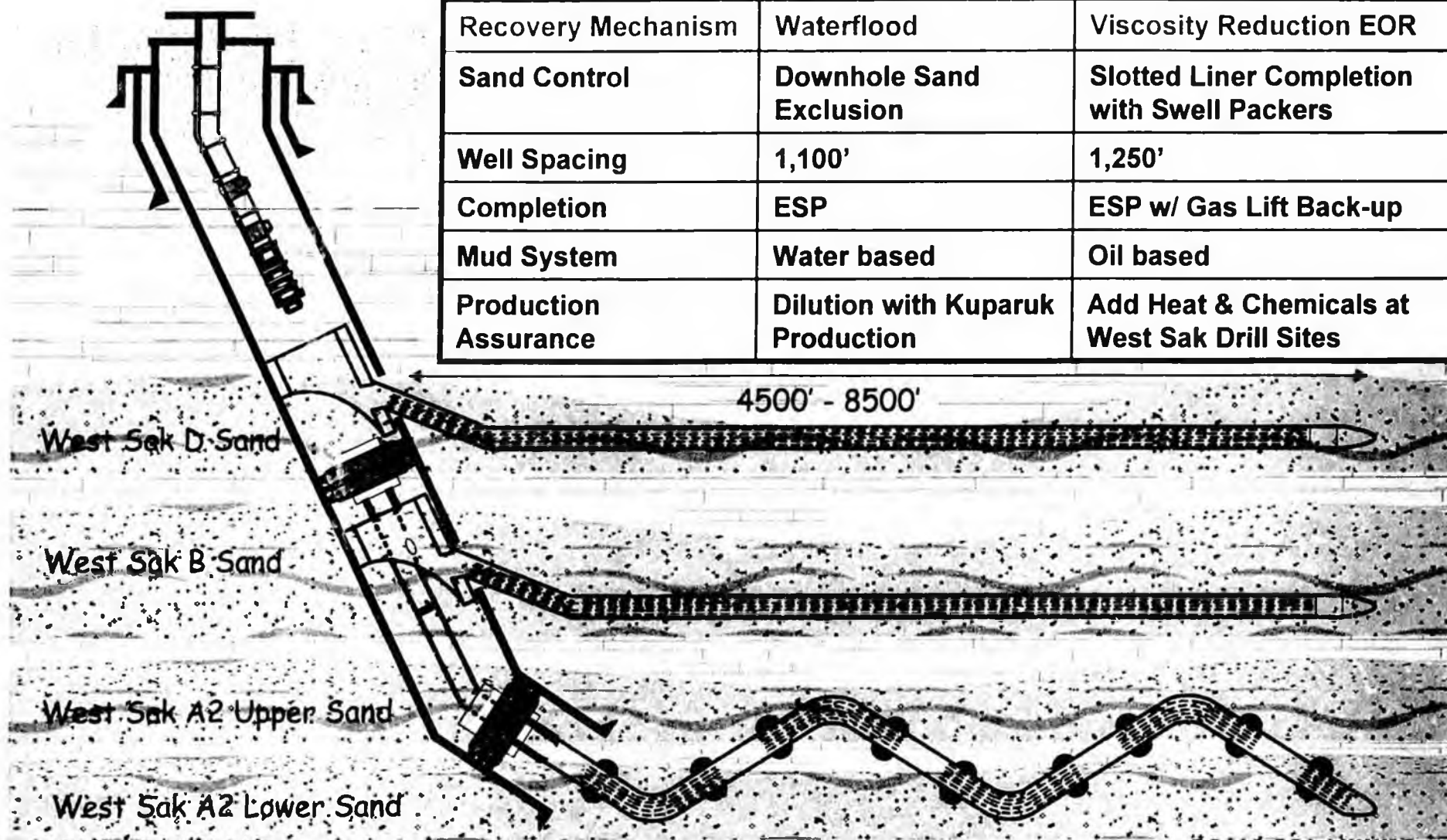


10 API Crude

- Shallow reservoirs (3,000 to 4,500')
- 1,800' of permafrost
- "Cold" Temperature (40° to 90° F)
- High viscosities for given API gravities (10's to 1000's cp)
- Low rates and recovery factors

West Sak Tri-Lateral Producer

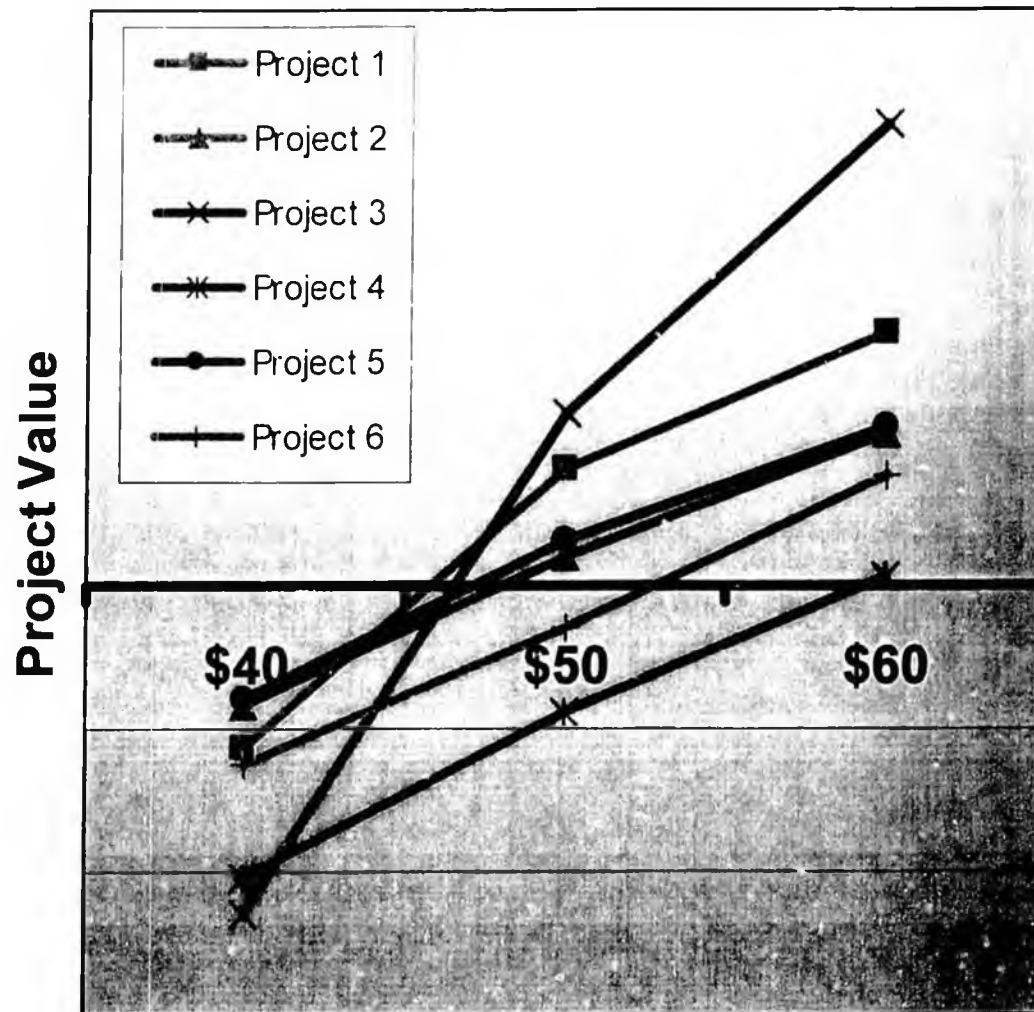
Component of Development Plan	1998	2004+
Well Types	Vertical	Horizontal Multi-Lateral
Drilling Reach	Moderate	Extended
Recovery Mechanism	Waterflood	Viscosity Reduction EOR
Sand Control	Downhole Sand Exclusion	Slotted Liner Completion with Swell Packers
Well Spacing	1,100'	1,250'
Completion	ESP	ESP w/ Gas Lift Back-up
Mud System	Water based	Oil based
Production Assurance	Dilution with Kuparuk Production	Add Heat & Chemicals at West Sak Drill Sites



Project Analysis

	Finniza's	Prudhoe/Kuparuk Projects						Totals
	Field A	1	2	3	4	5	6	
Legacy Field	●	●	●	●	●	●	●	
Satellite	●			●	●	●	●	
Stand Alone								
Heavy Oil	●		●	●	●	●	●	
Reserves (MMB)	80	56	60	53	19	18	52	258 MMB
Ownership	Existing	Existing	Existing	Existing	Existing	Existing	Existing	
Capital (\$/B)	\$ 11	\$ 11	\$ 15	\$ 16	\$ 21	\$ 19	\$ 16	\$3.9 B
Expense (\$/B)	\$ 7	\$ 6	\$ 7	\$ 5	\$ 8	\$ 5	\$ 11	\$1.8 B
Production Start	hypothetical	2010	2010	2010	2012	2012	2013	

Project Economics Under Current PPT



- Projects challenged with higher development costs
- Higher price environment has enabled viability
- Tax change will erode economics

Impact on Investment

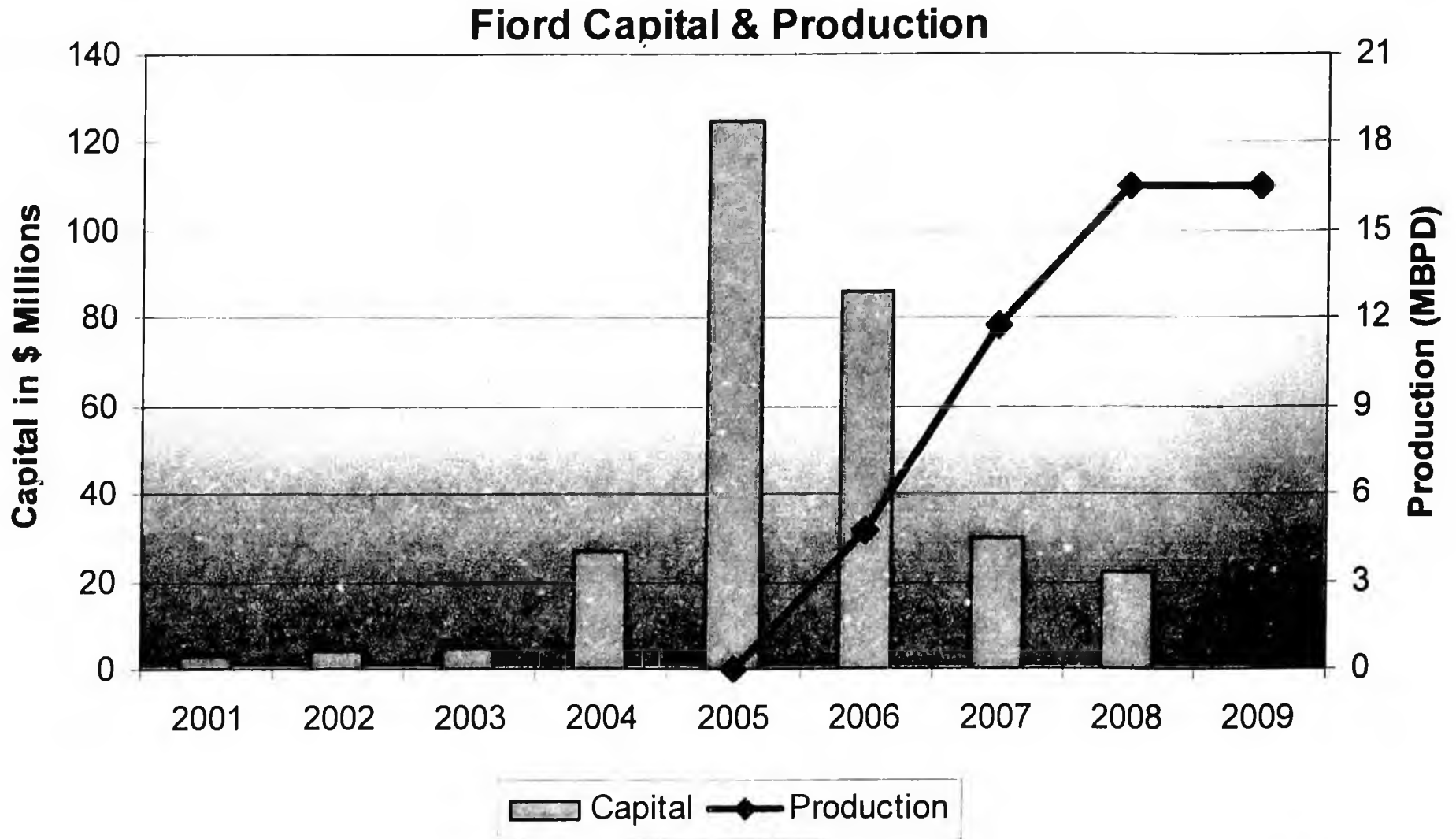
	PPT	Bill 25/20	Bill 10% Min
Project 1	Economic	Economic	Marginal
Project 2	Economic	Marginal	Marginal
Project 3	Economic	Economic	Marginal
Project 4	Marginal	Marginal	Not Economic
Project 5	Economic	Economic	Not Economic
Project 6	Marginal	Marginal	Not Economic

- Six real projects under evaluation
- \$3.5-\$4.0B gross capital spend
- Over \$6.0B revenue to state
- 250MM Bbls
- 1st production 2010-2013

TIE Credits

- Included in PPT legislation to recognize the impact of “changing rules” after investment decisions made
- Provides for equitable treatment of past expenditures
- TIE credits soften the impact of fiscal instability

Example of TIE Impact Fiord Development



Other Provisions

- Supportive of additional transparency in reporting
- But, certain areas of concern in bill:
 - Exploration confidentiality
 - Cost Deductions:
 - Statute should define lease expenditure deduction
 - Unscheduled maintenance exclusion
 - Exclusion of topping plant expenditures and investment
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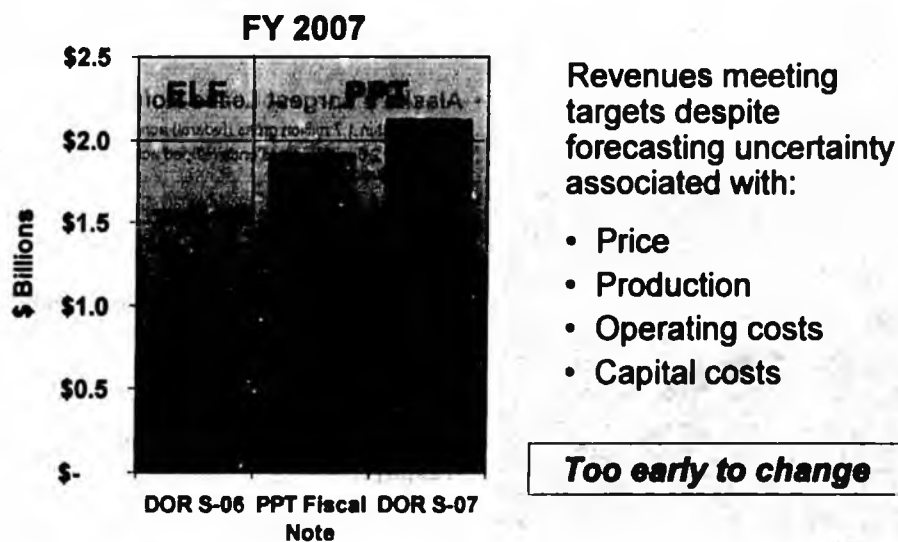
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Revenue Forecasts



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Base Rate vs 10% Legacy Floor

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Wellhead Revenue	\$	50.00	
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25% Net Profit Tax	\$	7.50	= 25% * \$30
- 20% Capital Credits	\$	(2.00)	= 20% * \$10
= Net Tax After Credits	\$	5.50	
Min Tax Calculations			
Wellhead Revenue	\$	50.00	
x Gross Tax Rate		10%	
= Min Tax (\$)	\$	5.00	

**Net Exceeds Min:
Tax Due = \$5.50**

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Investment Can Trigger Legacy Floor

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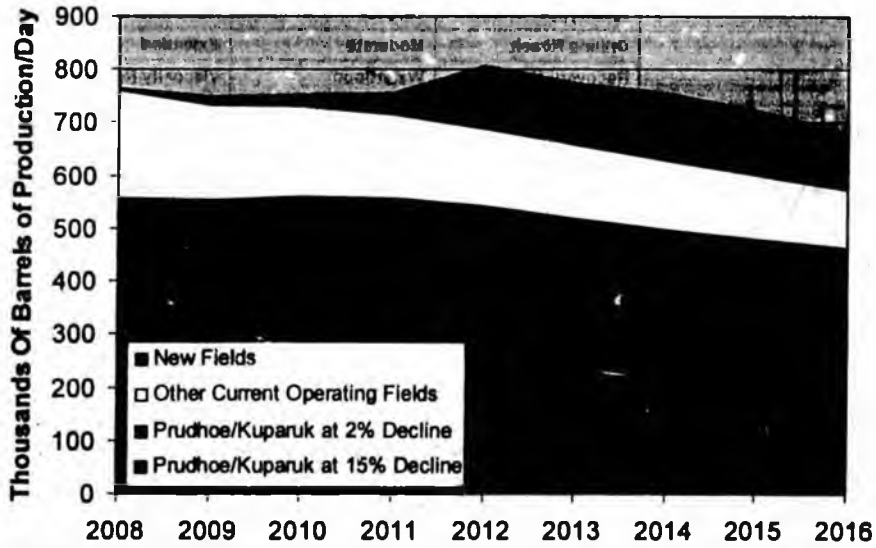
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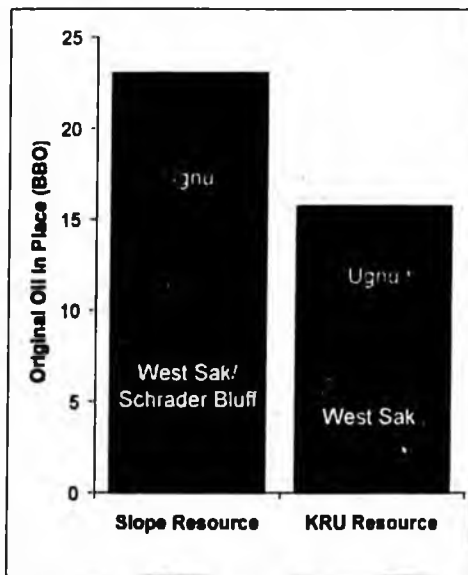


Department of Revenue 2007 Spring Forecast

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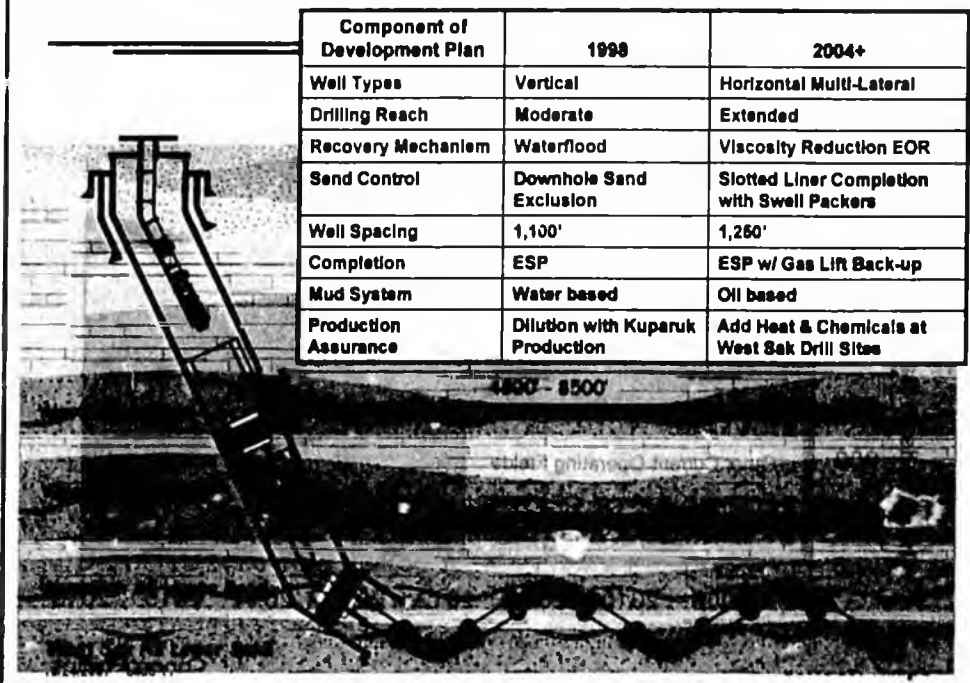
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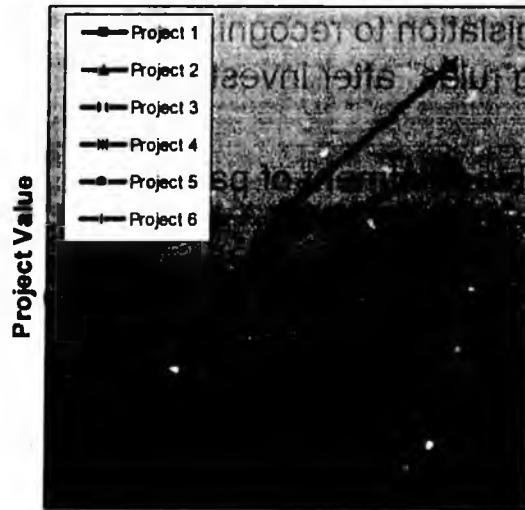


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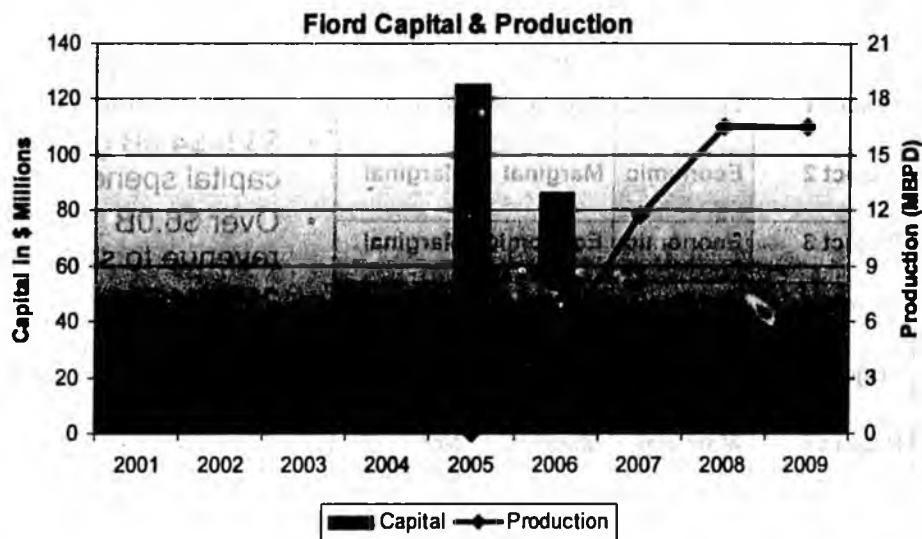
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Example of TIE Impact Fiord Development



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