

03/29/2017

Presentation:
World Oil and Gas
Markets Impact on
Alaska

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World Oil & Gas Markets – Impact on Alaska

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March 29, 2016



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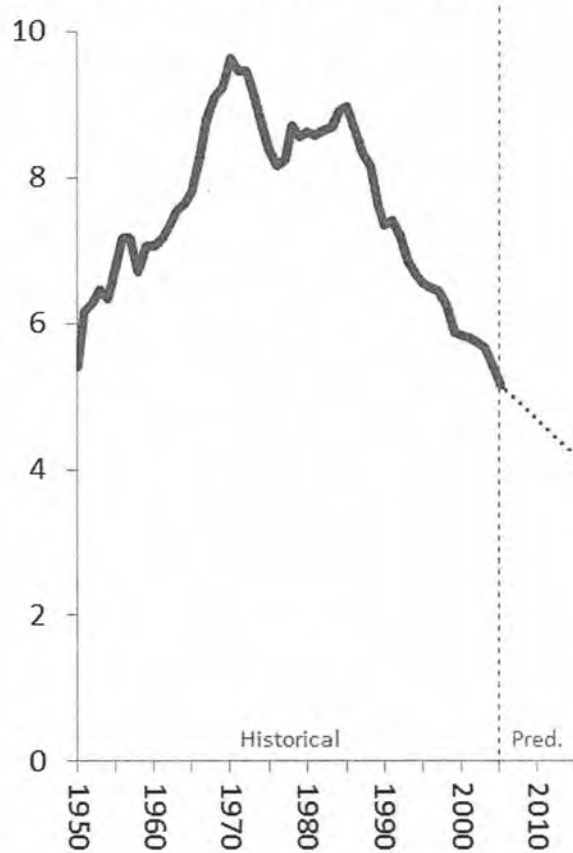
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Agenda

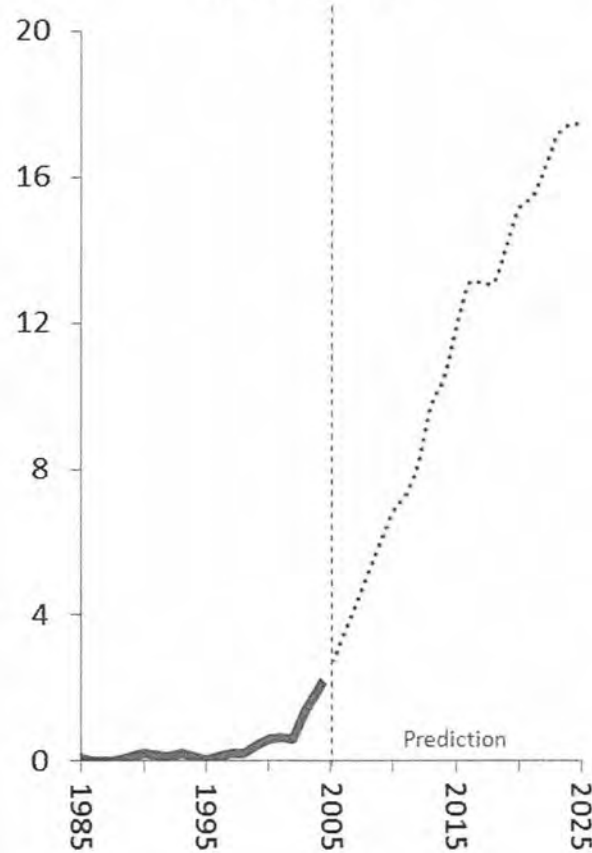
- Global **Crude Oil** Supply/Demand and Price Outlook
- Global **Natural Gas** Supply/Demand and Price Outlook
- Implications for Business Decision-making and Investment
- Conclusions for Alaska

U.S. Energy Landscape circa 2005

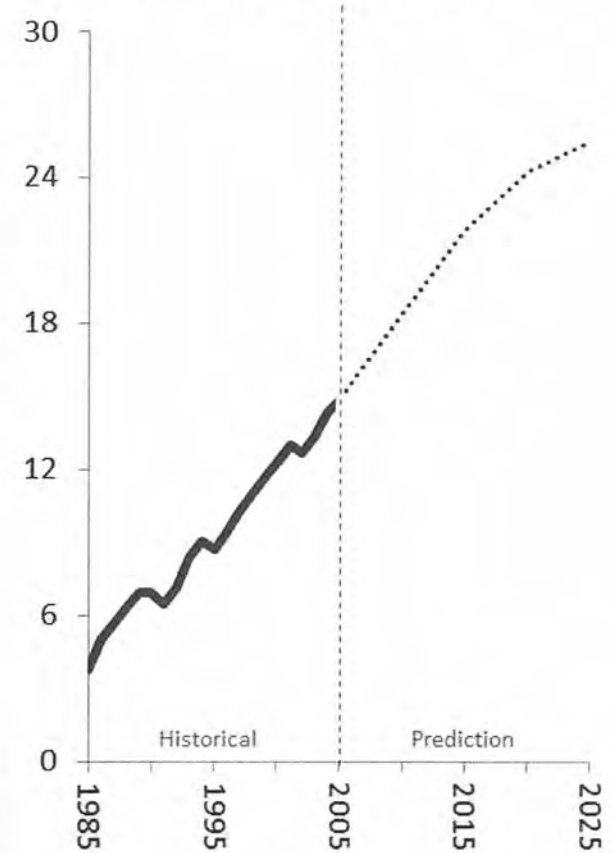
U.S. Oil Production
(millions of barrels per day)



Liquefied Natural Gas Imports
(bcf per day)

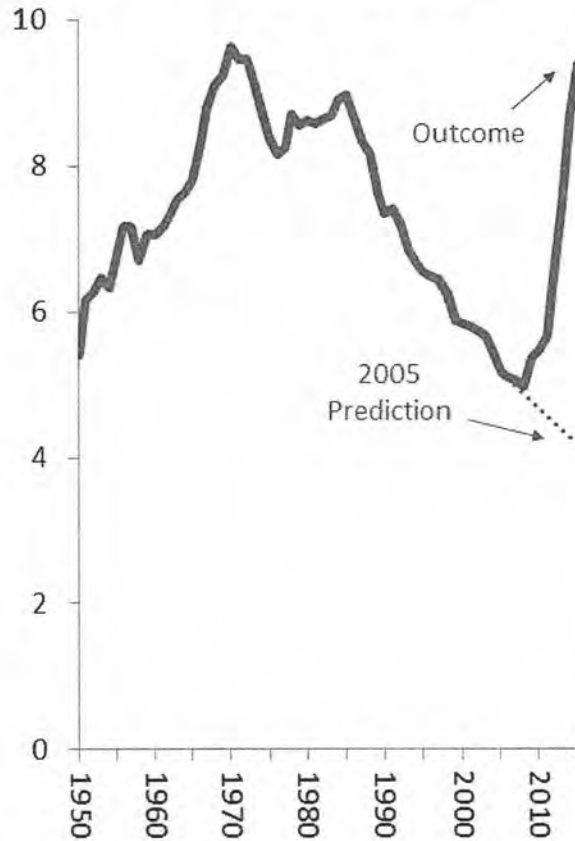


U.S. Net Energy Imports
(millions of BOE per day)

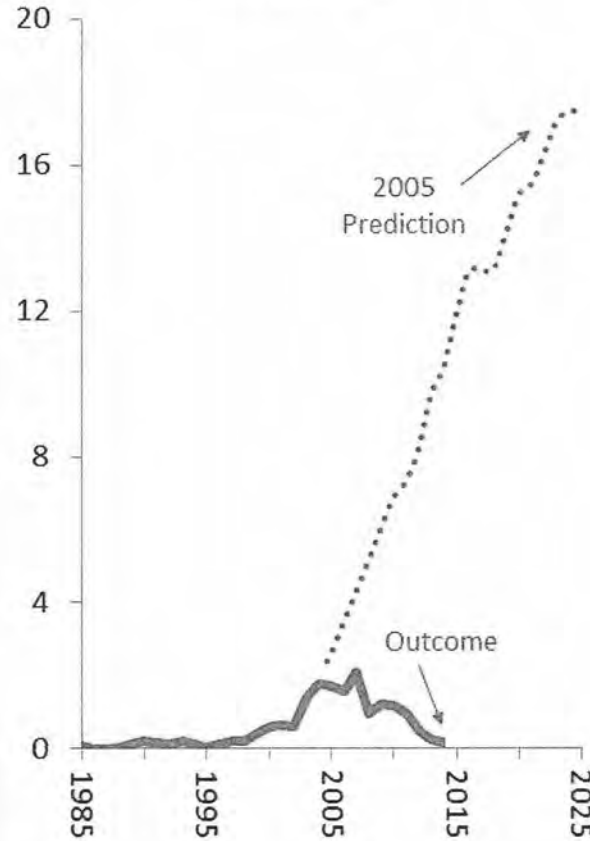


The Unconventional Revolution has Vastly Improved America's Energy Outlook

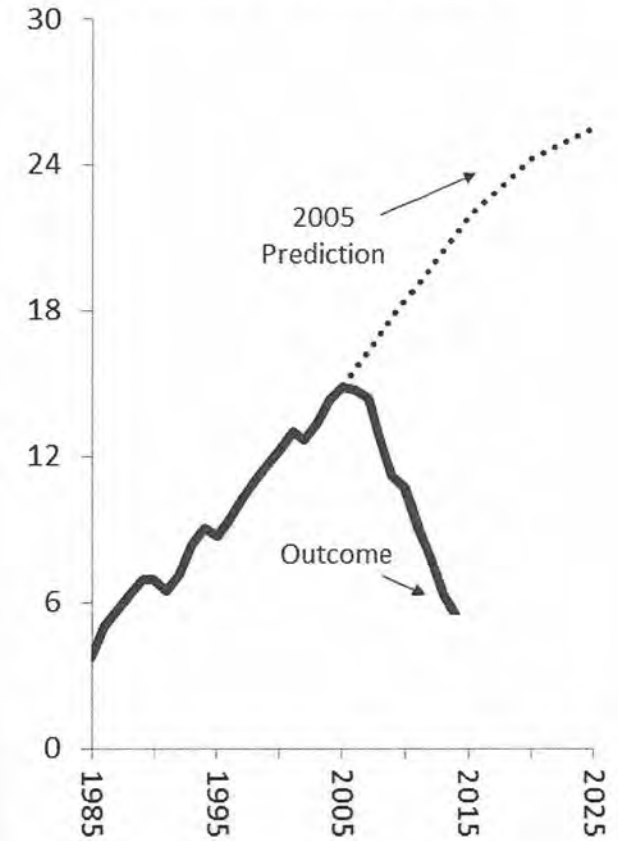
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Liquefied Natural Gas Imports (bcf per day)

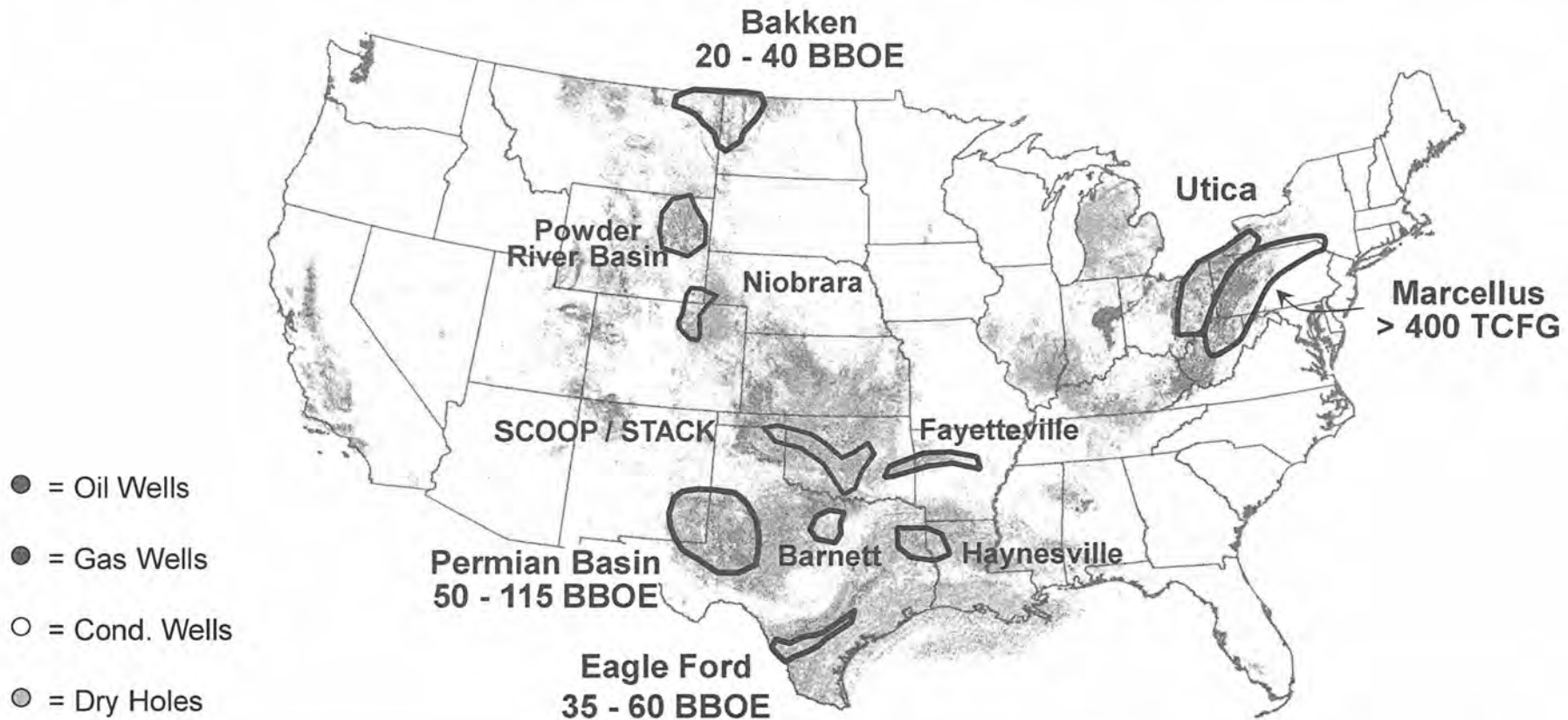


U.S. Net Energy Imports (millions of BOE per day)

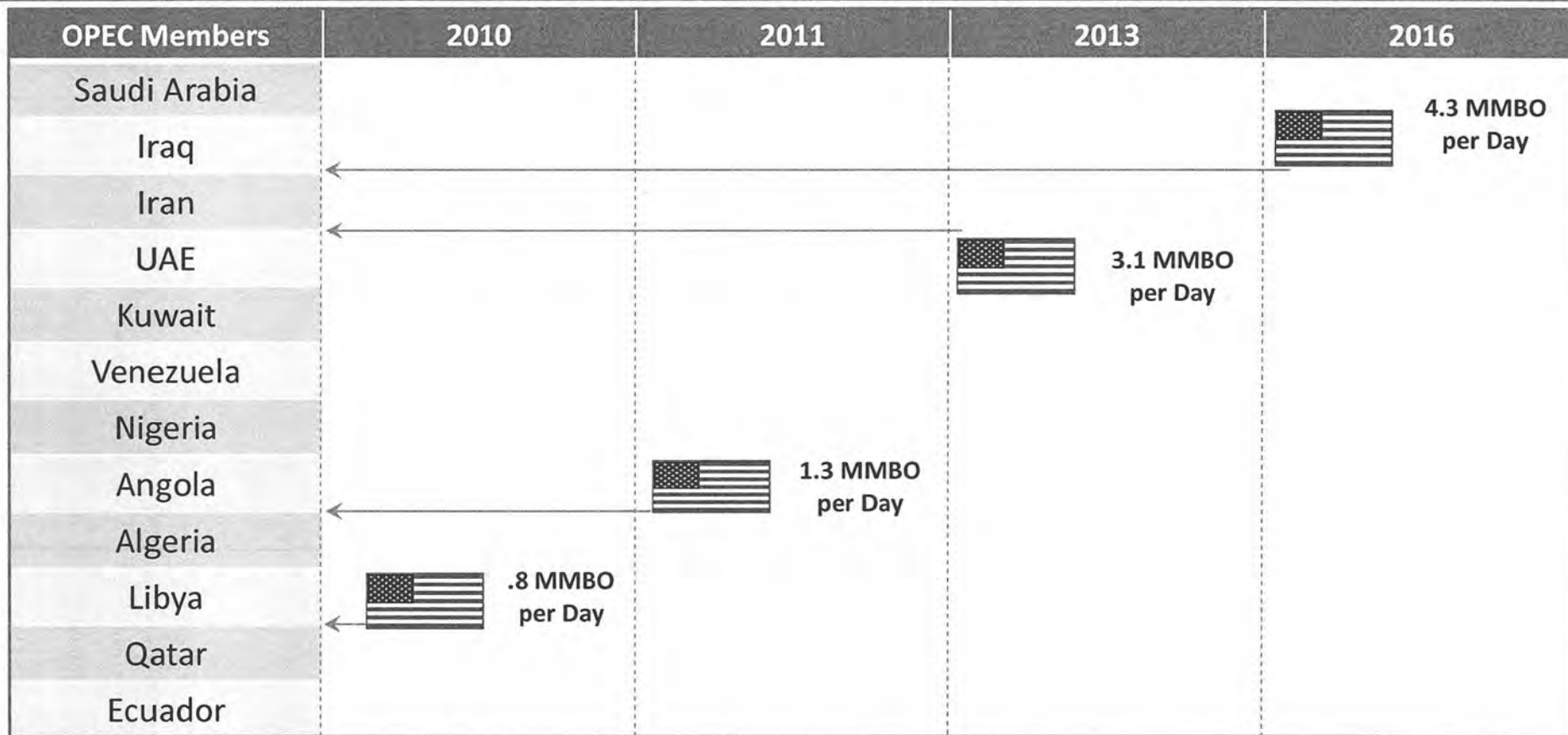


U.S. Unconventional Resources Rivals U.S. Conventional Endowment

Map Showing Oil & Gas Wells Drilled in 20th Century and Largest Unconventional Reservoir Fields

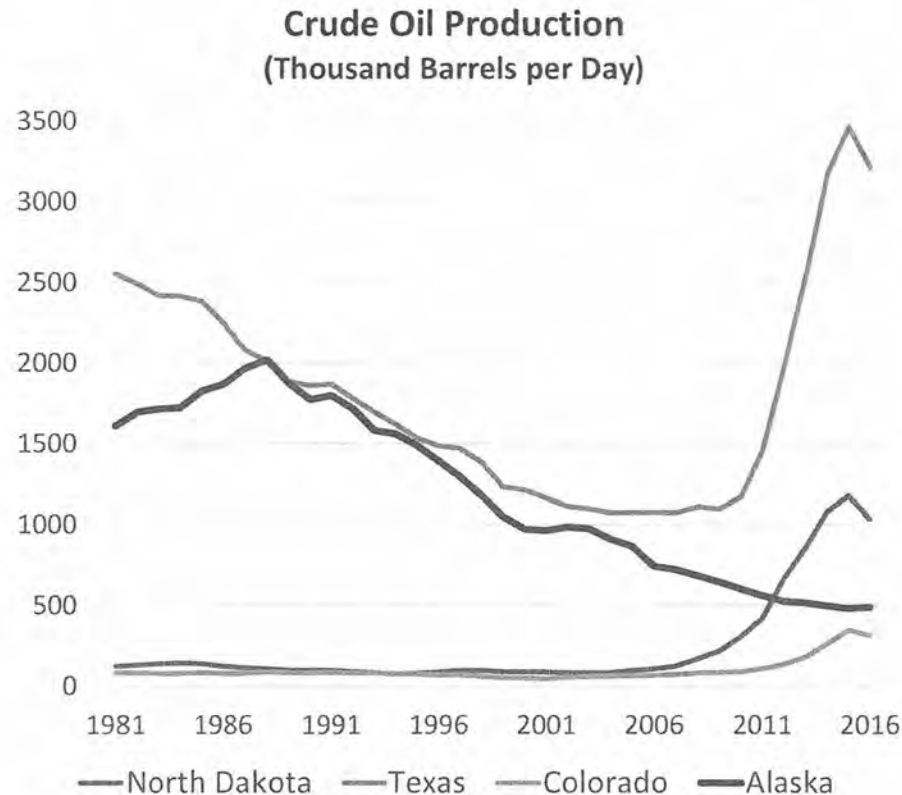


U.S. Tight Oil: The Biggest Driver Behind the Oil Renaissance



U.S. tight oil production alone is larger than production in most OPEC nations

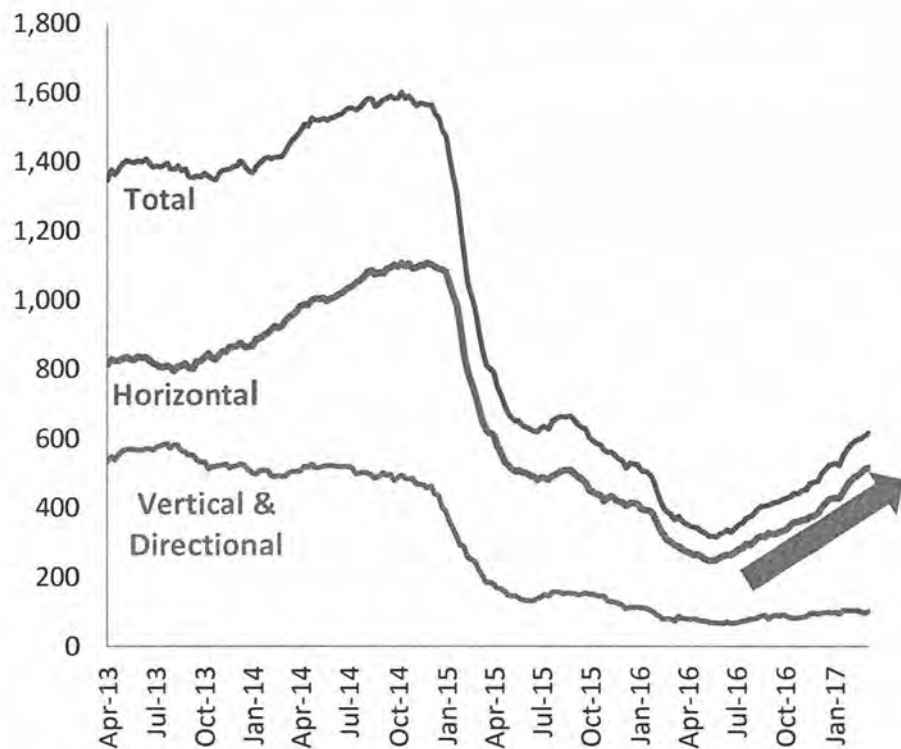
Historical U.S. State Crude Oil Production



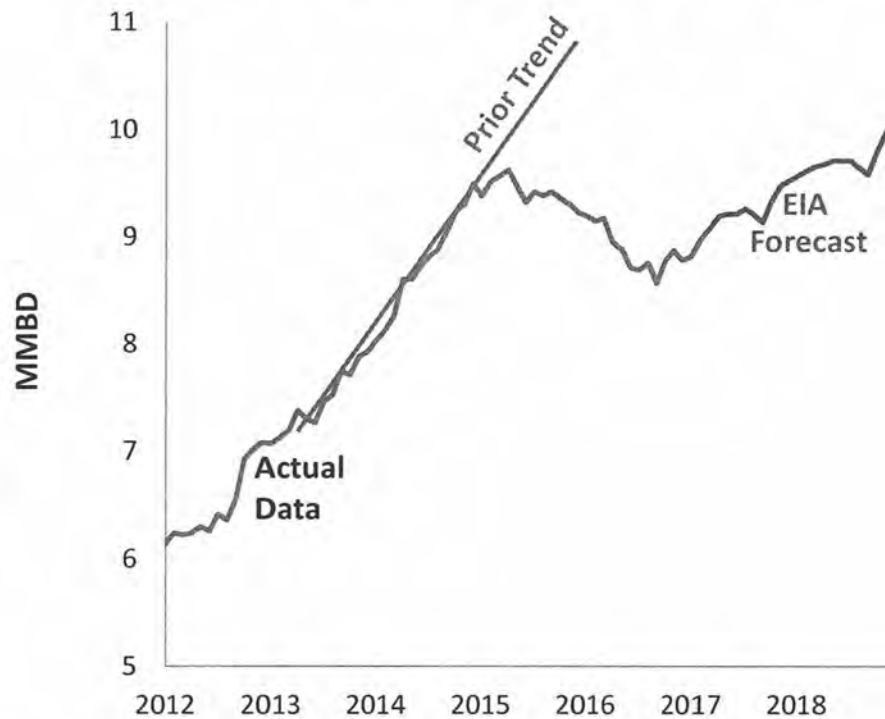
- The shale renaissance has allowed the reversal of production decline in Texas and become a source of growth in North Dakota and Colorado
- The downturn in production of tight oil plays in 2016 will likely be short-lived

U.S. Supply Response to Low Oil Prices

U.S. Lower 48 Oil-Directed Rig Count



Short-Term U.S. Oil Supply Response

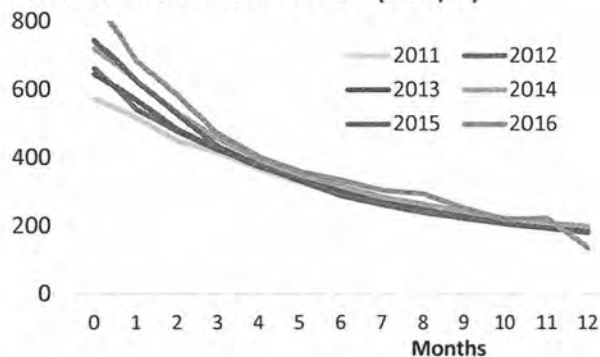


Lower 48 horizontal drilling has doubled since mid-year 2016

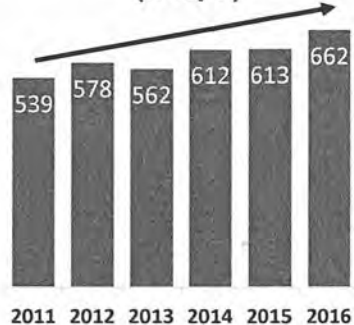
U.S. Lower 48 Tight Oil Improved Through 2015-2016 Price Downturn

EAGLE FORD

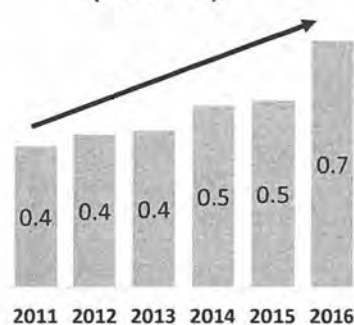
Annual Production Curve (boe/d)



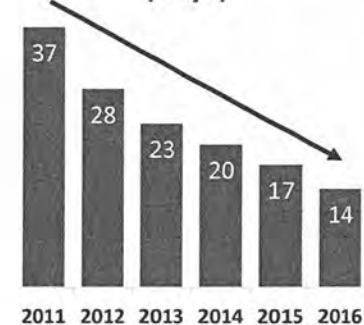
90 Day IP Rate (boe/d)



EUR (mmboe)

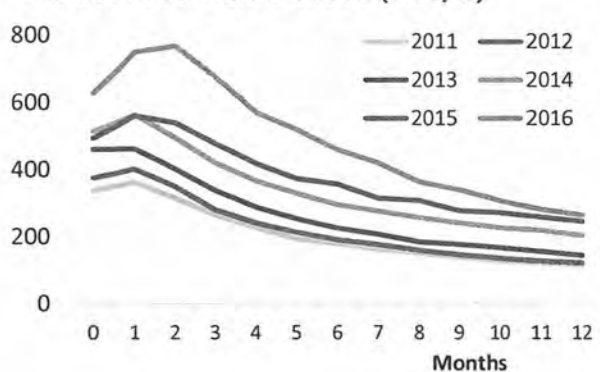


Drilling Days (days)

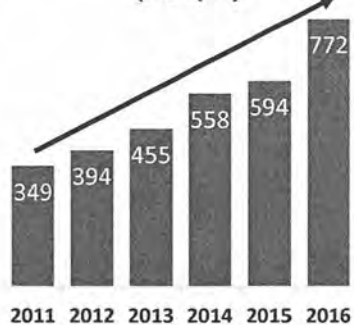


PERMIAN DELAWARE

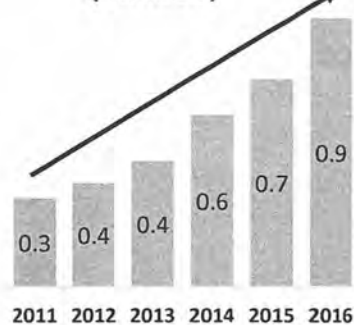
Annual Production Curve (boe/d)



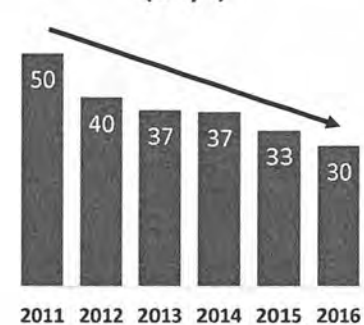
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Drilling Days (days)

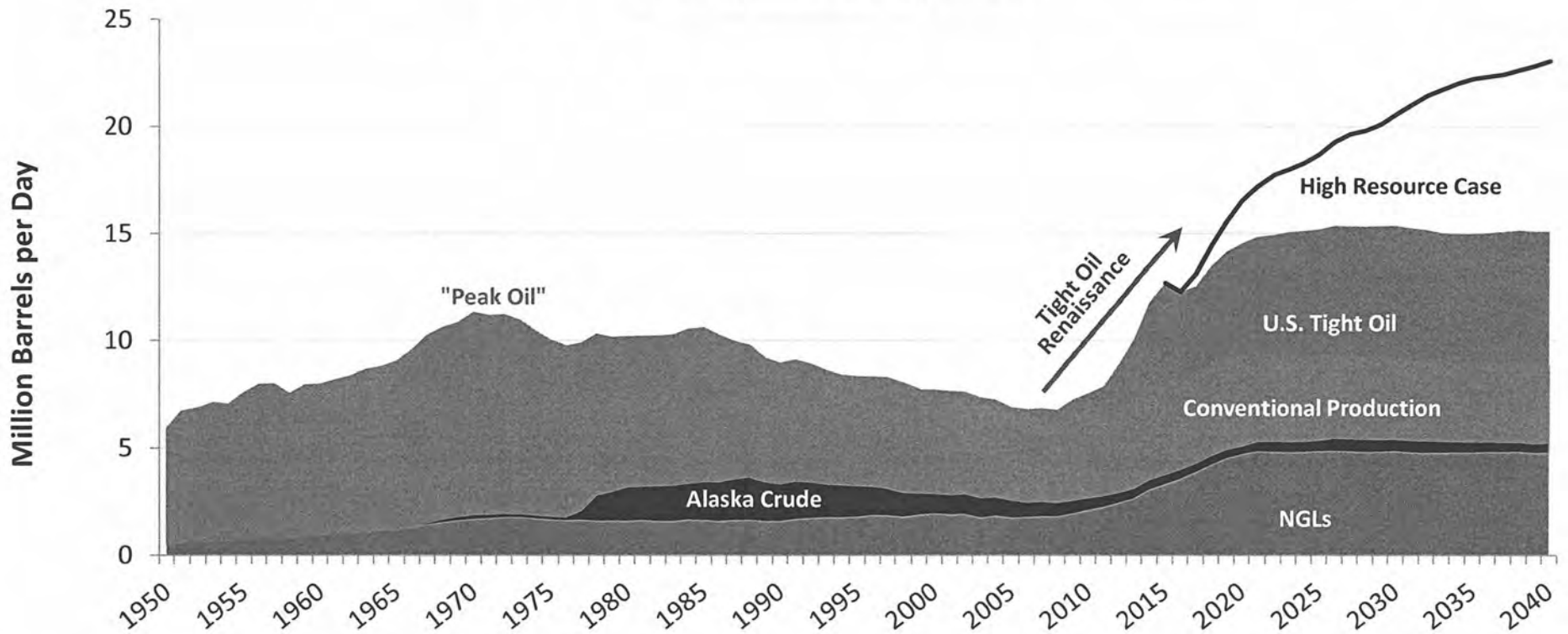


IP = Initial production

EUR = Estimated ultimate reserve recovery

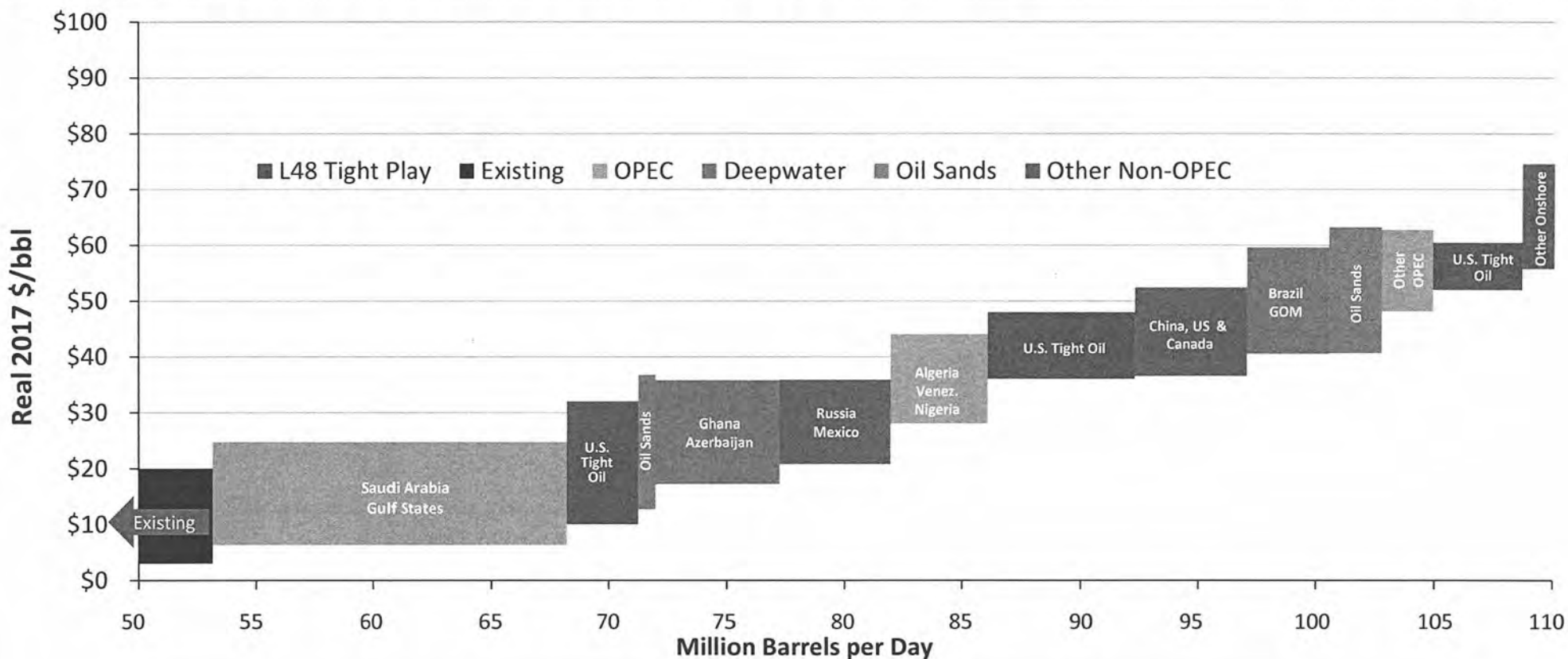
New Era of Abundance for U.S. Oil Supply

U.S. Crude, Condensate and Natural Gas Liquids Production
U.S. Department of Energy Forecast



Due to tight oil, U.S. production surpassed the previous peak in 2014 and continues to grow

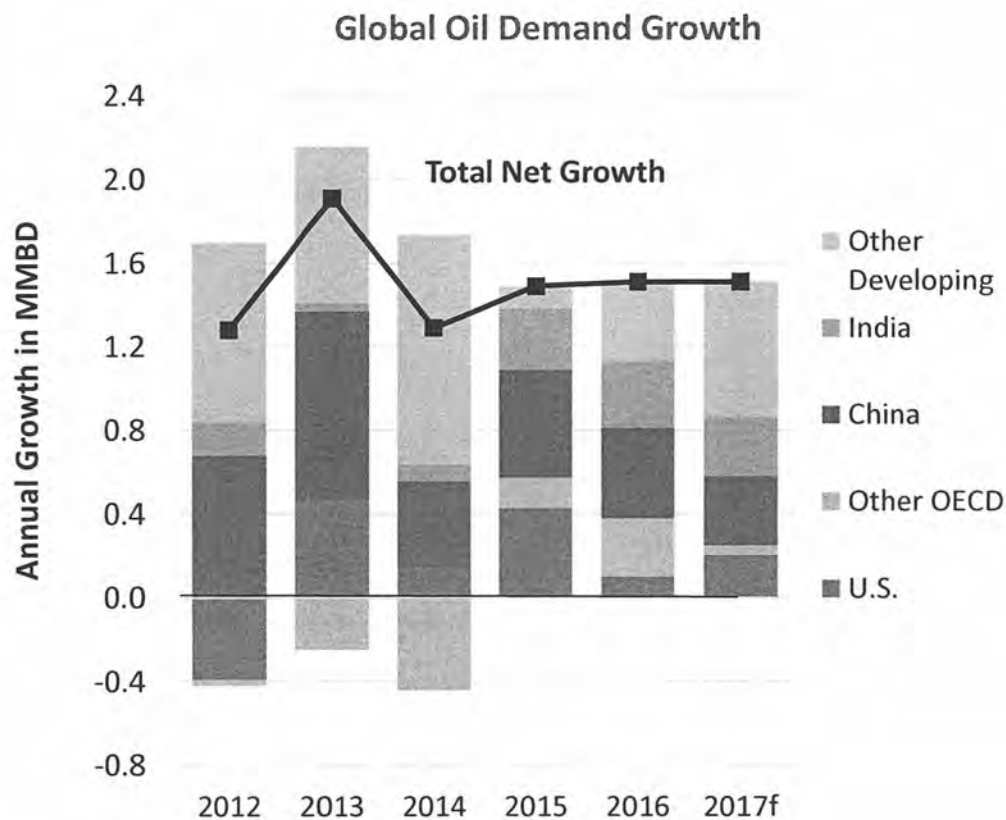
Incremental Global Oil Supply for 2025



Higher cost supply needs to compete with relatively low cost U.S. tight oil

Source: ConocoPhillips Chief Economists Office, Rystad Ucube; gross production growth before declines, boxes are indicative of the types of assets from each category not a fully inclusive list

Global Oil Demand Growth



- Global oil demand has responded positively to lower oil prices.
- Demand growth is relatively flat from 2015, which was buoyed by the collapse in crude prices.
- While 2017 demand remains robust, challenges exist:
 - Global economic risk
 - Strong U.S. dollar weakens demand response outside of the U.S.
 - Removal of subsidies in many developing countries hurts demand when oil prices recover

Global oil demand growth is relatively flat

Downside Risk to Global Economic Growth

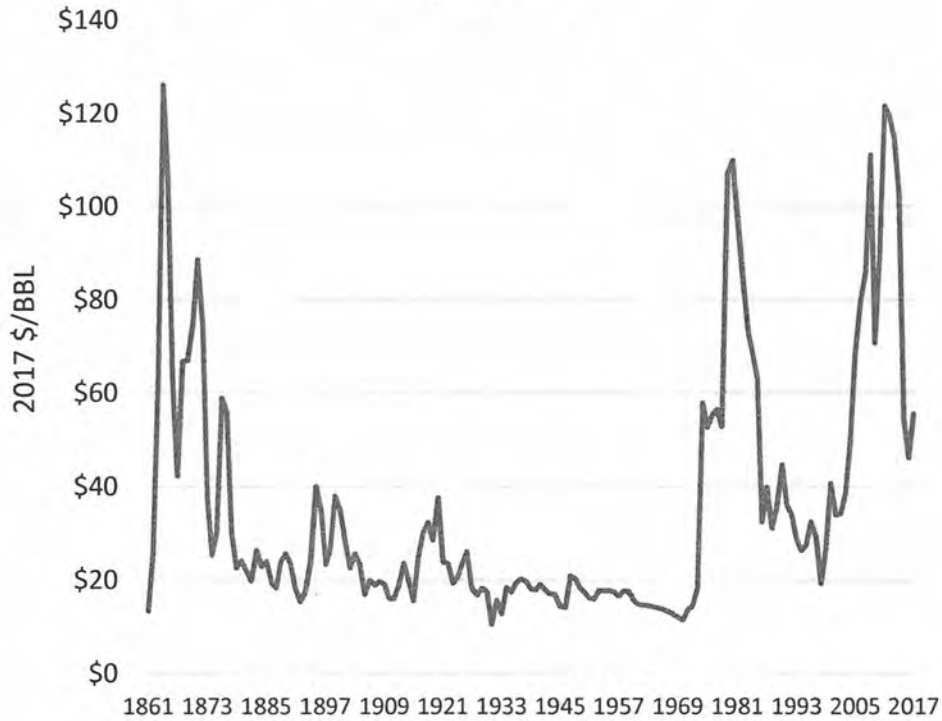


- Key threats to global economy:
 - Chinese economic deceleration
 - Brexit impact on European & global economy
 - Outflow of funds to U.S. due to U.S. monetary tightening
 - Global economic stagnation
 - Government policy missteps

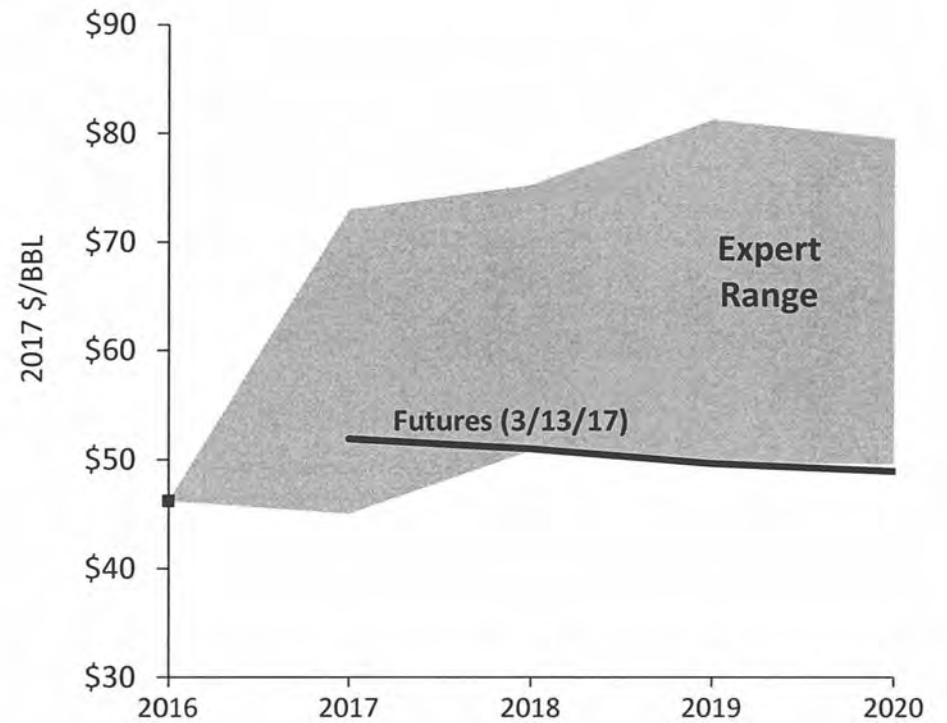
More downside than upside risk

Brent Crude Prices

Historical Spot Brent Prices (1861-2016)



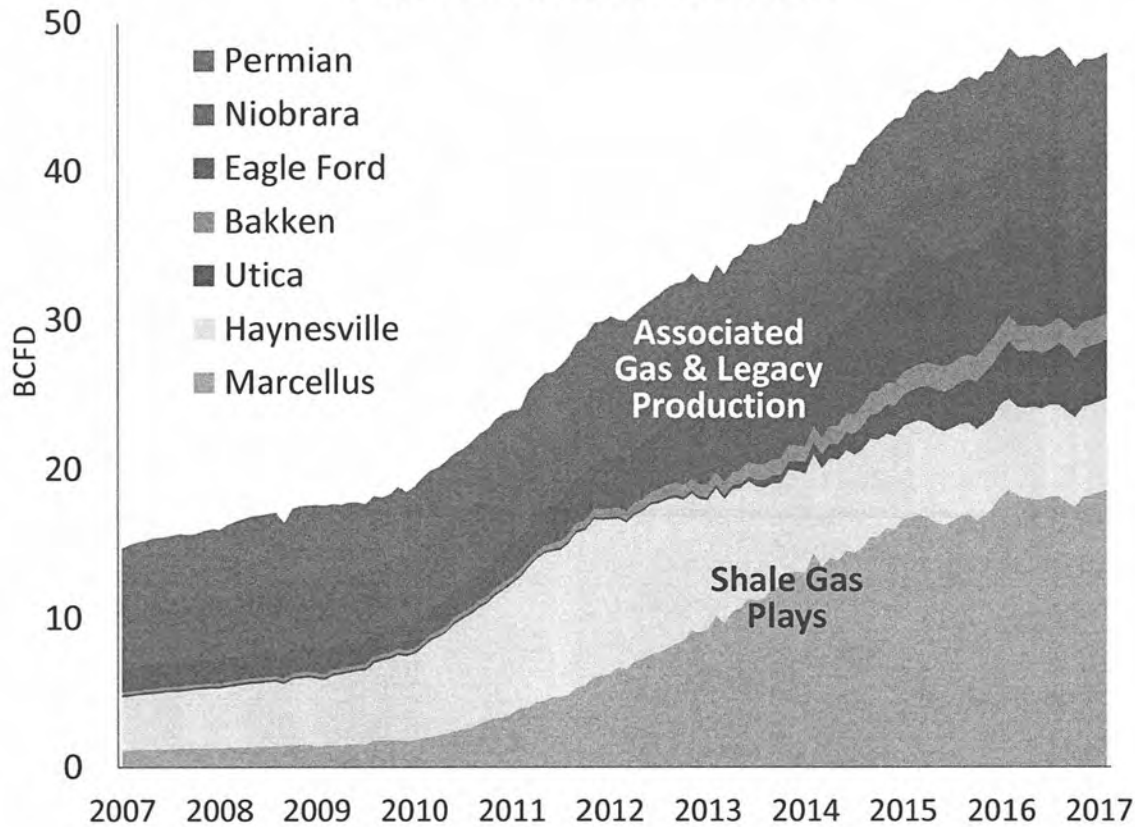
External Brent Price Outlook



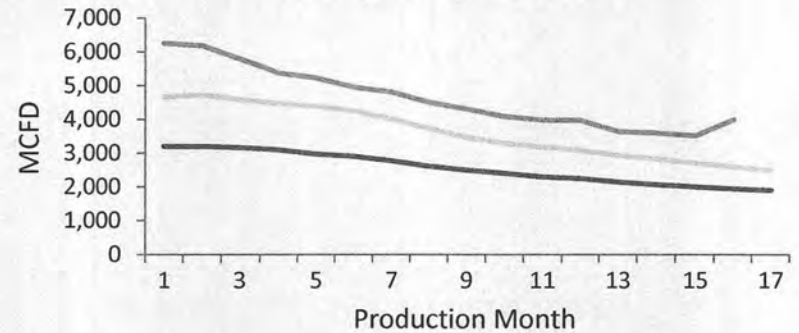
Wide range of views on oil outlook

Resilience of U.S. Shale Gas Production for Major Plays

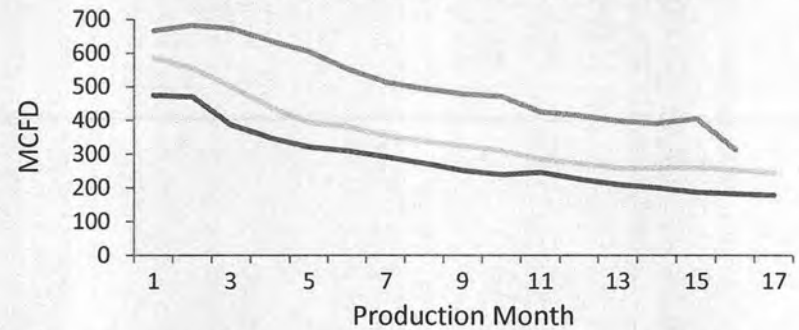
U.S. Shale Gas Production from Top Unconventional Plays



Marcellus Type Curves



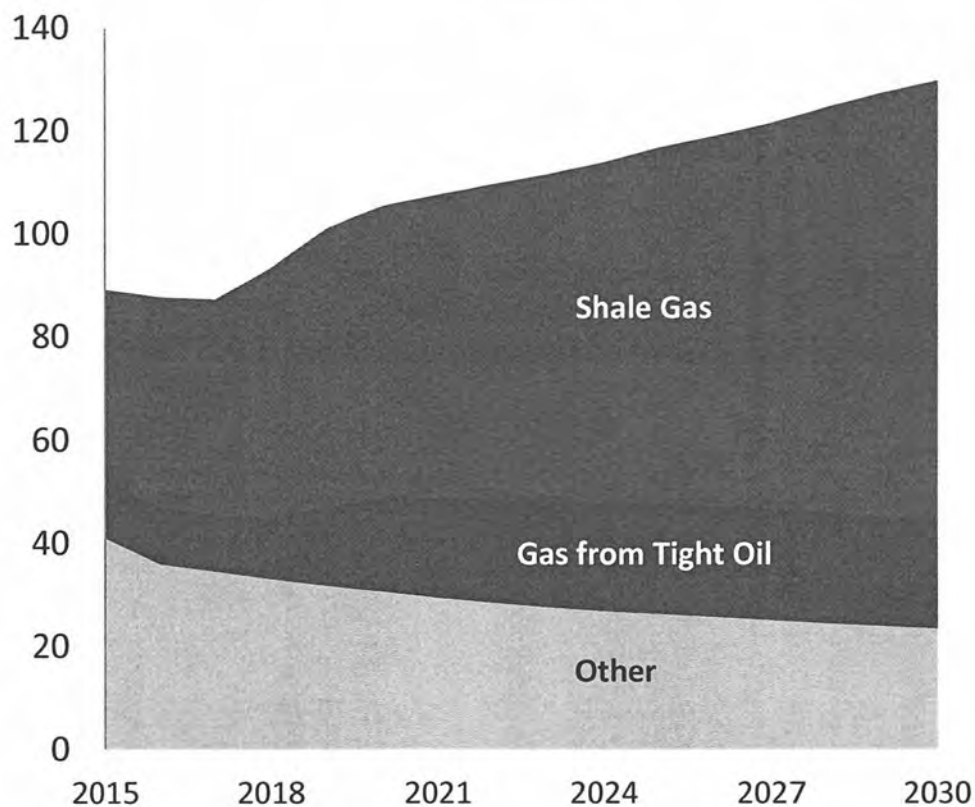
Permian Associated Gas Type Curves



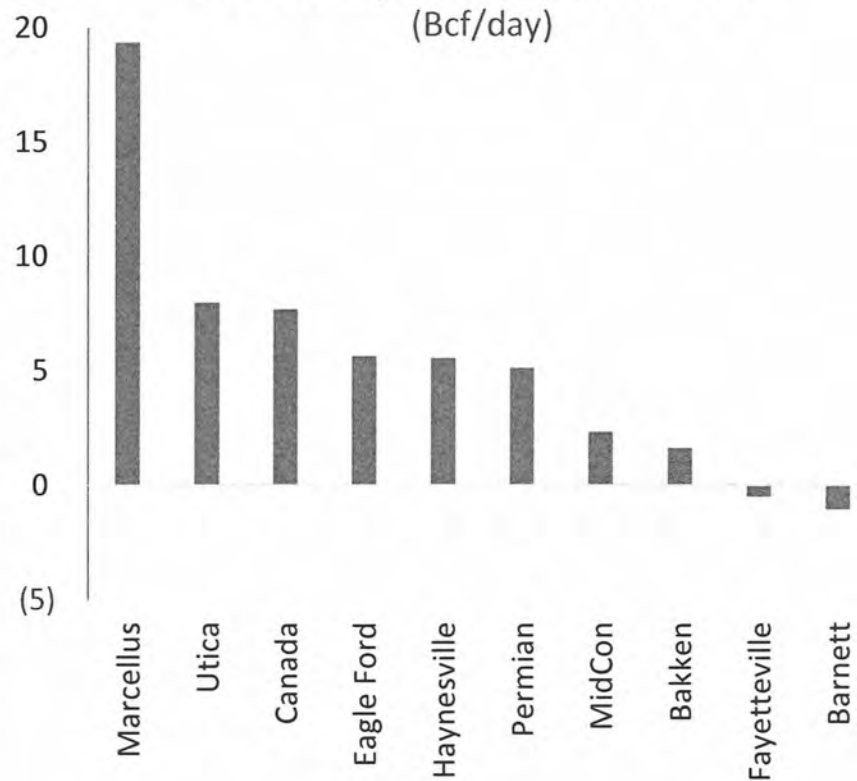
— 2015 — 2013 — 2011

North American Natural Gas Production Outlook

The Future of North American Production is Shale
(Bcf/day)

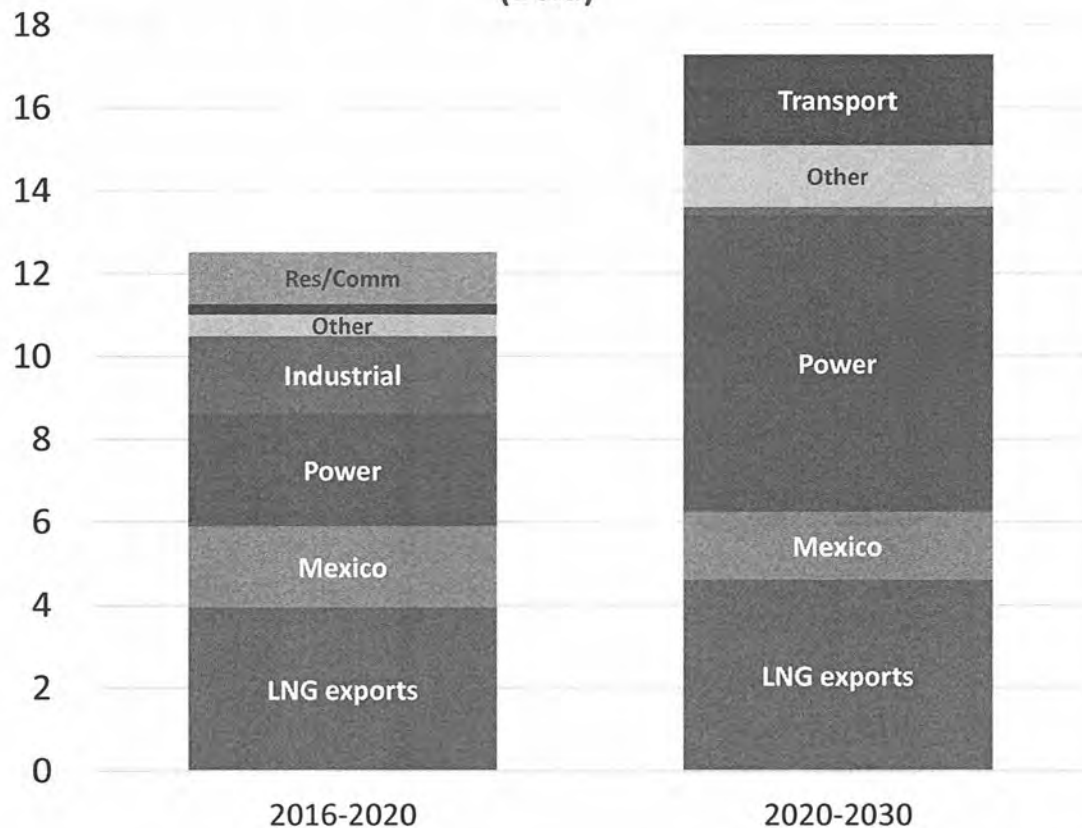


Marcellus is the Growth Leader
Growth in production 2016-2030
(Bcf/day)

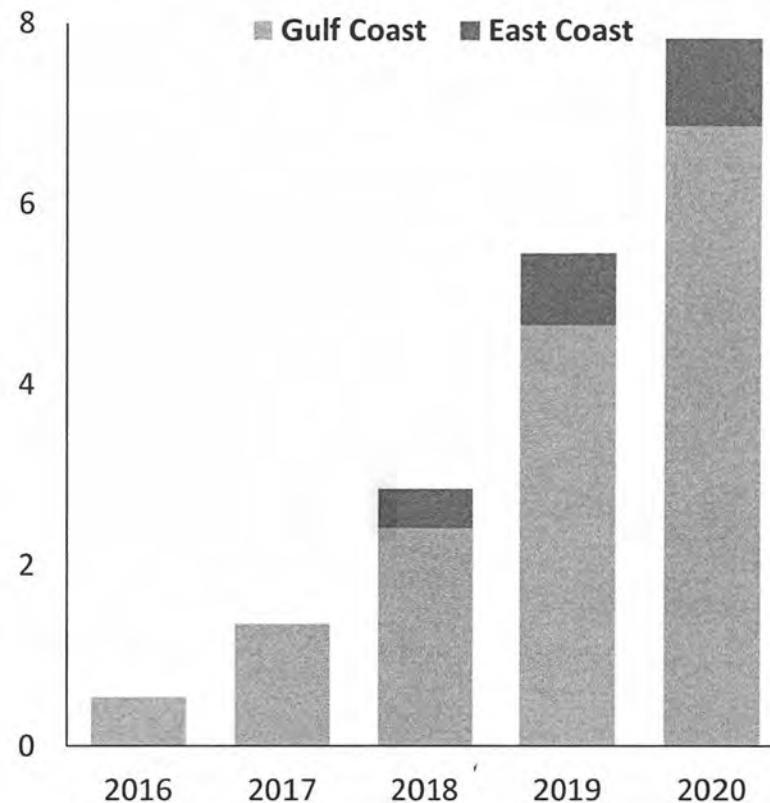


U.S. Natural Gas Demand Outlook

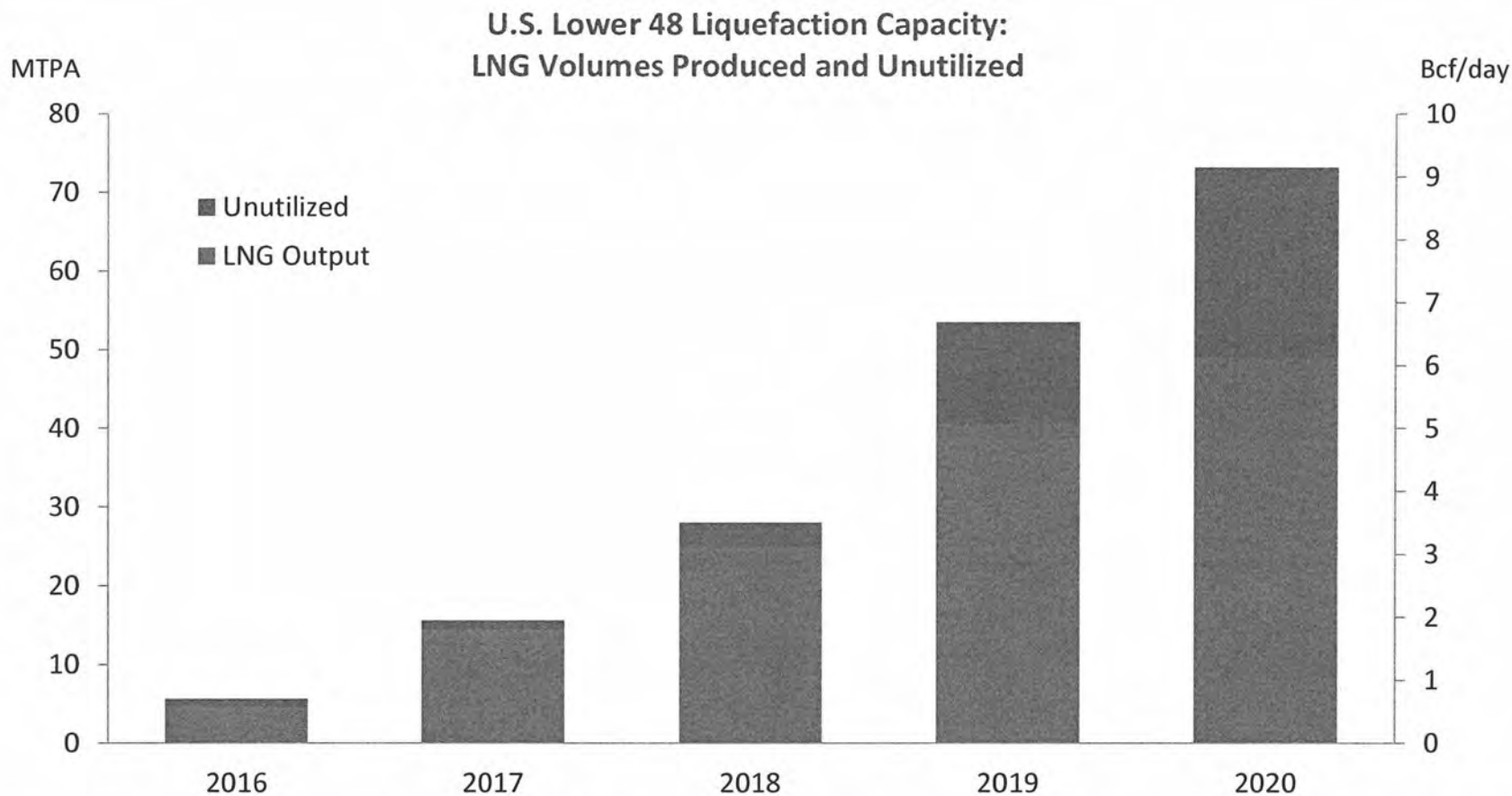
Demand Growth Led by Export Markets and Power (Bcfd)



Almost 9 Bcfd (70 MTPA) Lower-48 Liquefaction Capacity Online by 2020 (Bcfd)



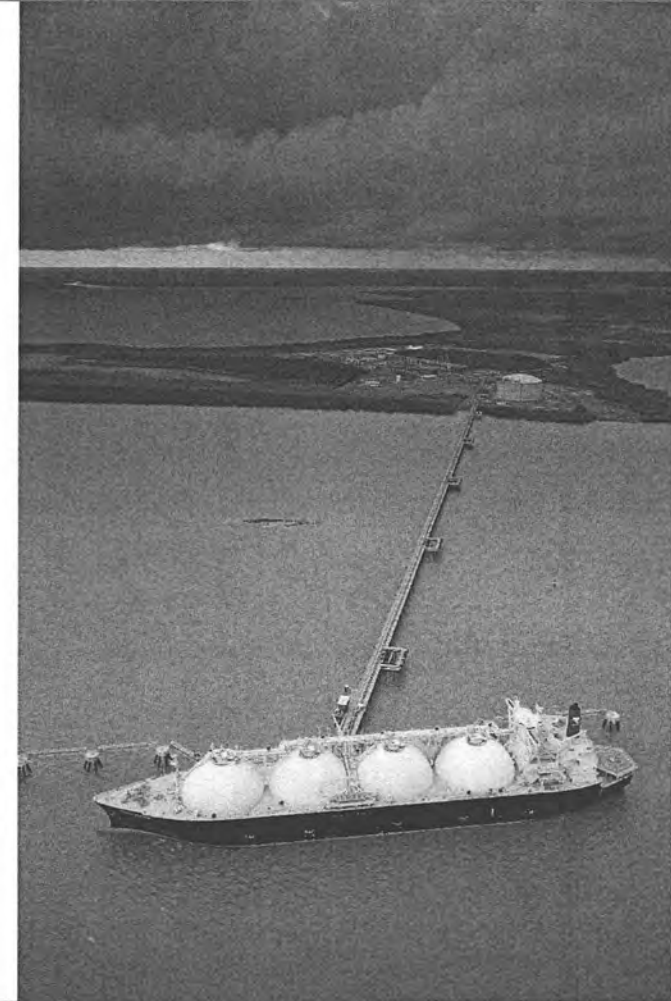
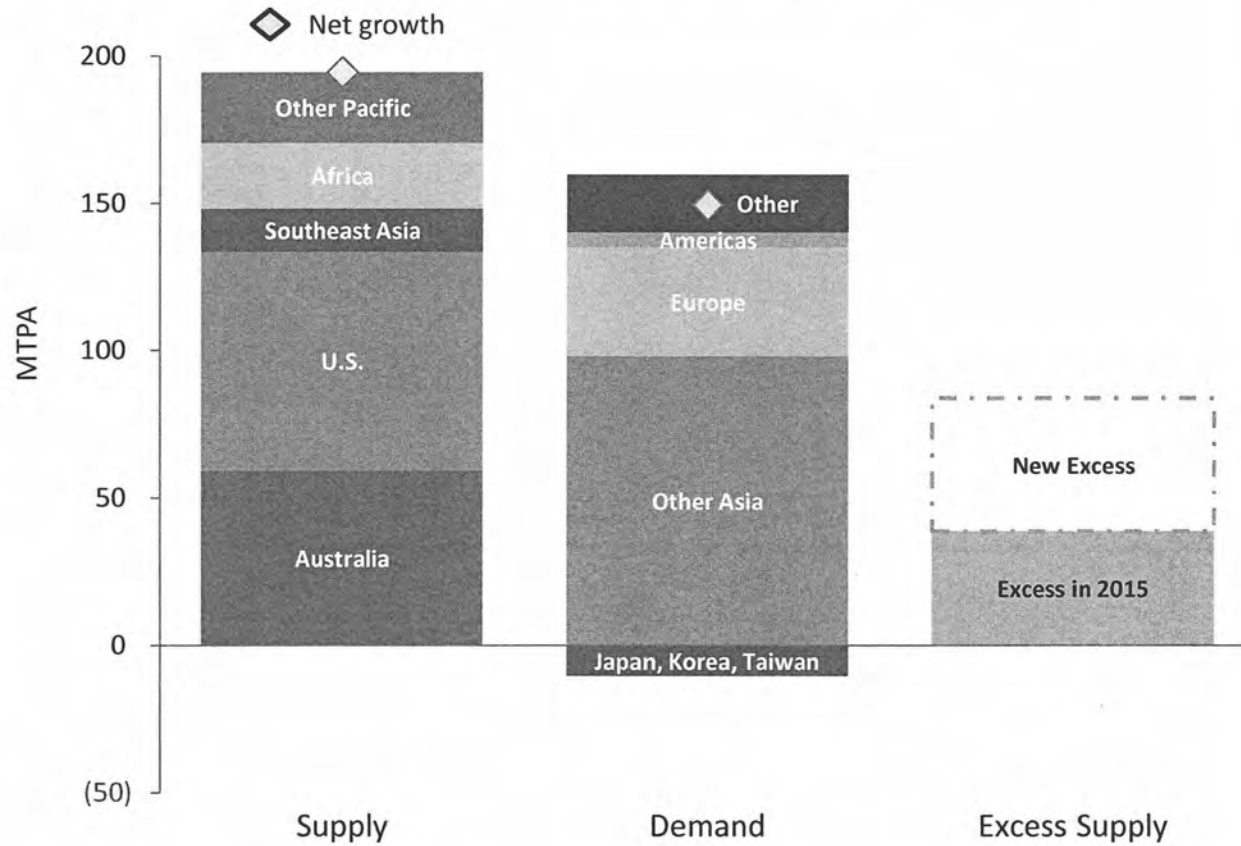
U.S. LNG Export Volumes May Underperform Prior Projections



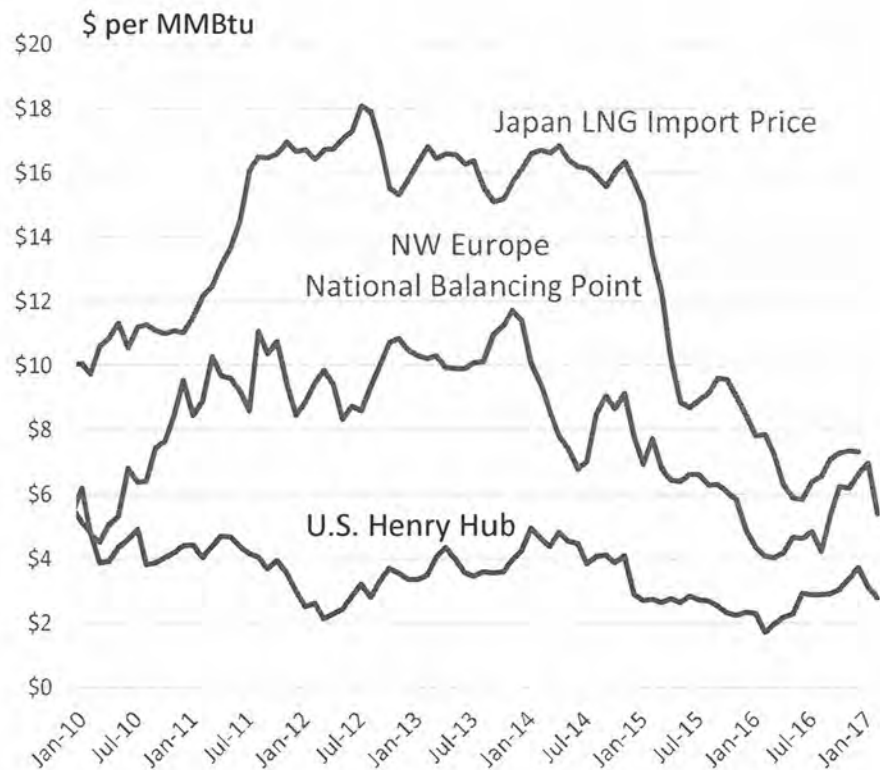
Significant volume of unutilized capacity in 2020

Global LNG Supply-Demand Balance

Global Cumulative Growth 2016-2025



Regional Natural Gas Prices



- Sharp decline in international natural gas prices due to:
 - Crude price decline
 - Weakening economic and natural gas demand growth
 - Substantial increases in Australian and U.S. LNG capacity
- Regional gas prices are converging
 - Squeezes economics of LNG projects

Source: Bloomberg

ConocoPhillips is Exercising Flexibility

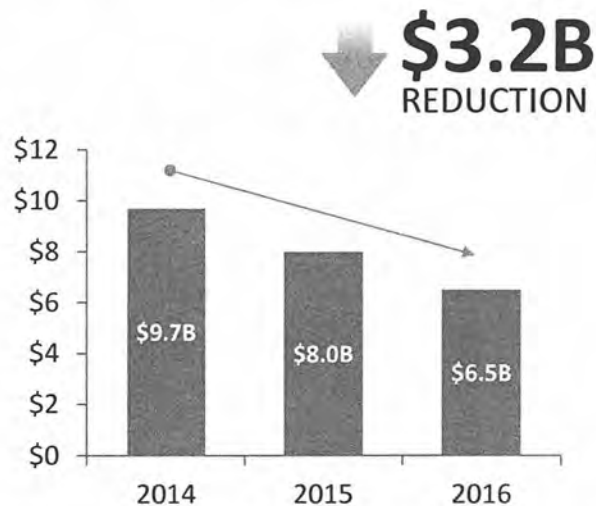
Capital



2016: \$4.9B

- COP capital has been reduced ~71%
- Smaller reductions in Alaska with capital remaining at ~\$1 B annually

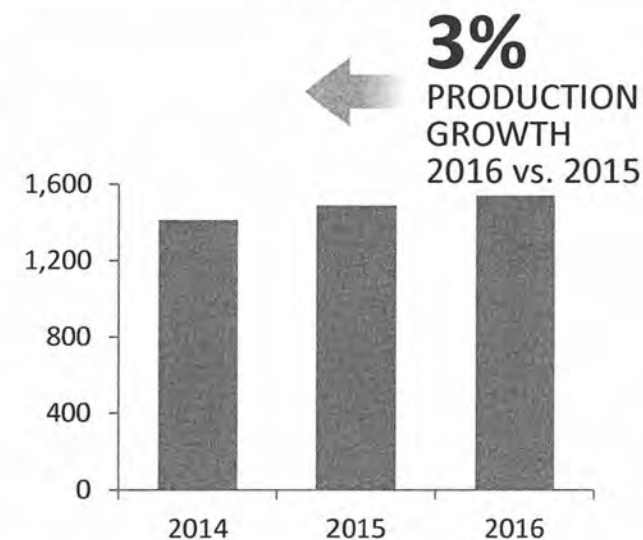
Adjusted Operating Costs¹



2016: \$6.5B

- Driving sustainable reductions
- Maintaining core capabilities

Production²



2016: 1,540 MBOED

- Major project ramp ups offsetting decline
- Significant growth inventory for up-cycle

Summary of Market Outlook

- The U.S. tight oil renaissance has changed supply landscape
- Volatile global economic growth is a threat to oil demand
- Weaker crude prices for longer
- Current LNG forecasts indicate oversupply
- Convergence of regional natural gas prices

Implications for Alaska

- Oil and gas price environment remains challenging for producers
 - Less capital available for investment
 - Companies allocate capital to lowest cost-of-supply projects
- Alaska must compete against new low cost supply sources for oil and natural gas
 - U.S. tight oil and shale gas
 - Lower cost U.S. LNG supplies at Gulf Coast
- Further unlocking value for Alaska requires:
 - Competitive and stable **State** fiscal policy
 - Greater access to **federal** acreage,
 - Reliable and timely **federal** permitting processes
- A state-led project could be paradigm shift for monetizing ANS gas by:
 - Seeking a federal tax exemption as a state-owned enterprise
 - Accepting a lower return on equity
 - Could reduce cost of supply by ~40%

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