

House Finance Committee

CSHB111

Scott Jepsen, VP External Affairs and Transportation

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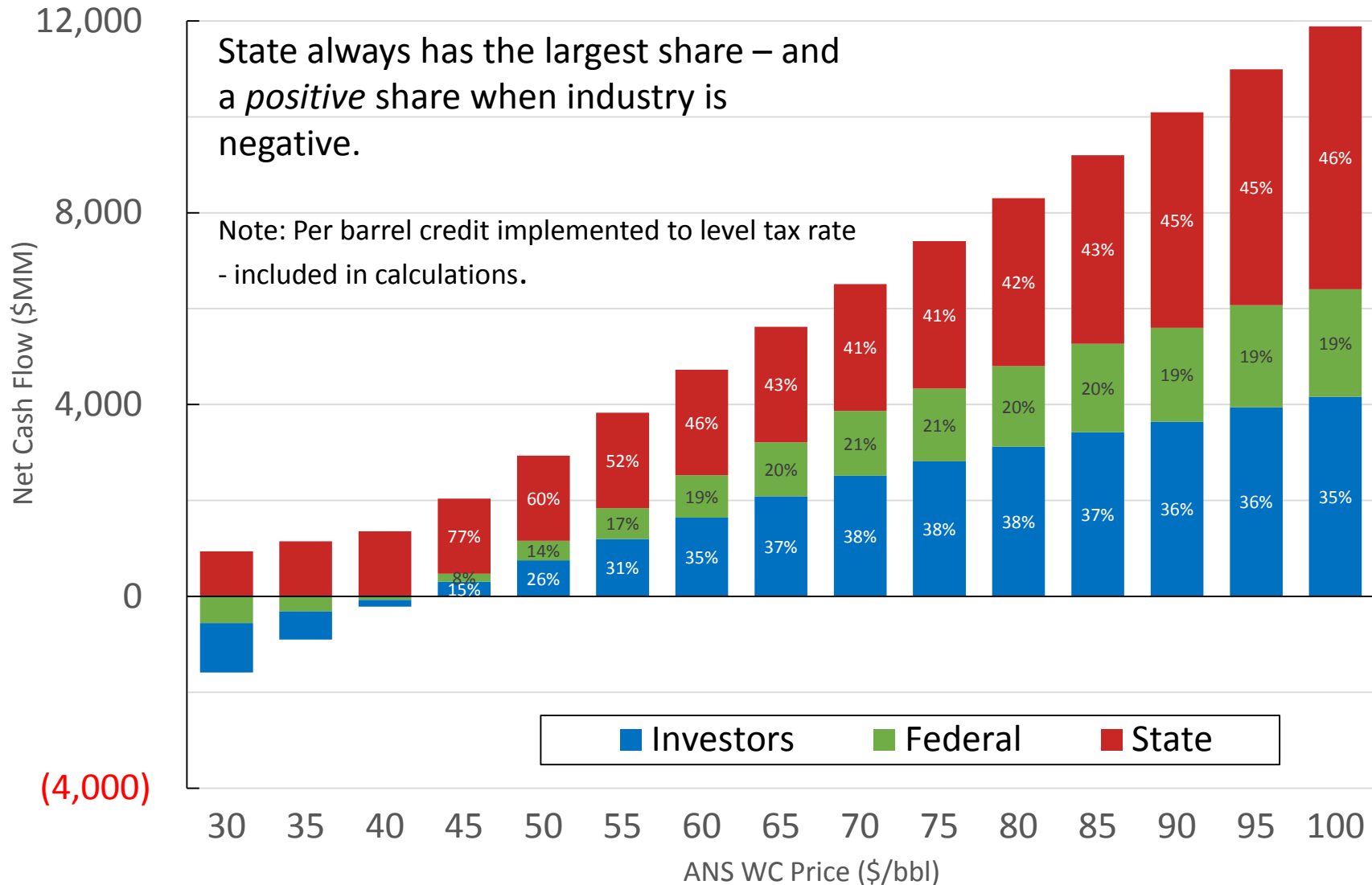
ConocoPhillips Alaska

March 22, 2017

SB21 Has Improved Alaska's Investment Climate

- Basic tax structure of SB21 has placed Alaska in a competitive position
 - Flatter tax rate over a broad range of prices
 - Secures revenue to the State at lower prices
- Increased investment resulting in jobs, production and improved State revenue outlook
- Increased competition from the unconventional opportunities in the L48 have made it even more important that Alaska not increase its cost structure through tax increases

FY 2017 Producer Share vs ANS WC - Fall 2016 RSB Assumptions



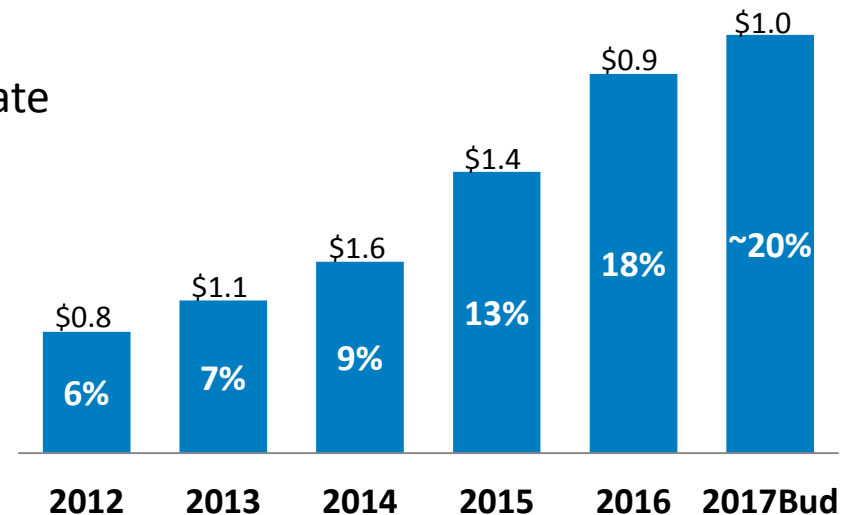
State share shown excludes tax credits other than per barrel tax credits.

Activities Since Tax Reform (SB21) Passed

- Added two rigs to the Kuparuk rig fleet, 2013-2014
- Two new-build rigs delivered in 2016
 - Doyon 142 and Nabors CDR3
 - 4 to 5 rigs at Kuparuk/Alpine during 2016
- Sanctioned ERD Rig in 2016
- North East West Sak – DS1H
- New drill site at Kuparuk (DS 2S) – on stream a year ago
- Sanctioned 18 additional wells at Alpine CD5
- Sanctioned Greater Mooses Tooth 1 in 2015
- Permitting Greater Mooses Tooth 2
- Willow discovery and acquisition of 737,000 State and federal acres in December 2016 lease sale
- Significant other industry investment



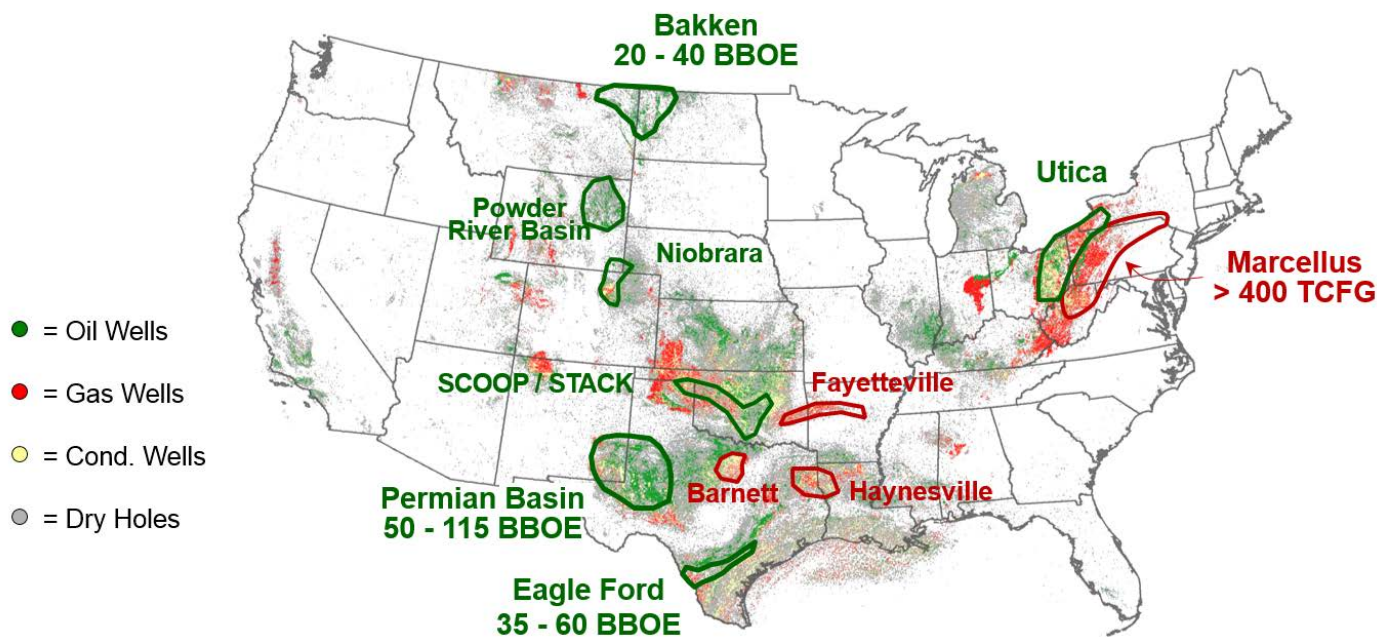
Alaska Capex as % of COP Total (\$B)



North Slope oil production grew 2% in 2016, the first growth in 14 years.

Source: Alyeska Pipeline Service Company Press Release December 30, 2016

Significant Investment Competition



- Oil and gas price environment remains challenging for producers.
 - Less capital available for investment.
 - Companies allocate capital to lowest cost-of-supply projects.

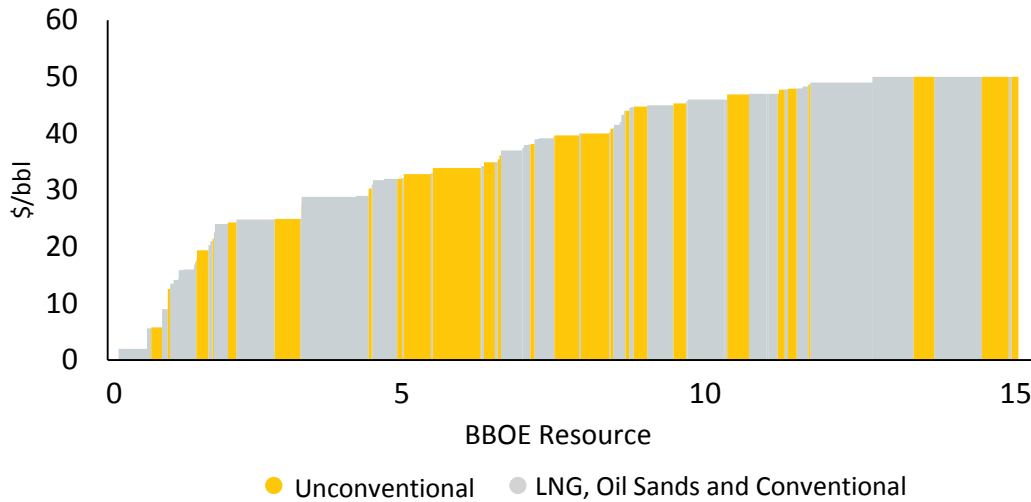
- Alaska must compete against unconventional plays that:
 - Are cheaper to develop and operate;
 - Are closer to market;
 - Have fewer regulatory hurdles.

Alaska is still opportunity rich, but so is the Lower 48. Alaska's tax policy will play a role in determining if Alaska can continue to attract investment.

Map shows wells drilled since the start of the 20th century; well locations from the US Geological Survey; resource estimates based on publicly available sources and ConocoPhillips estimates.

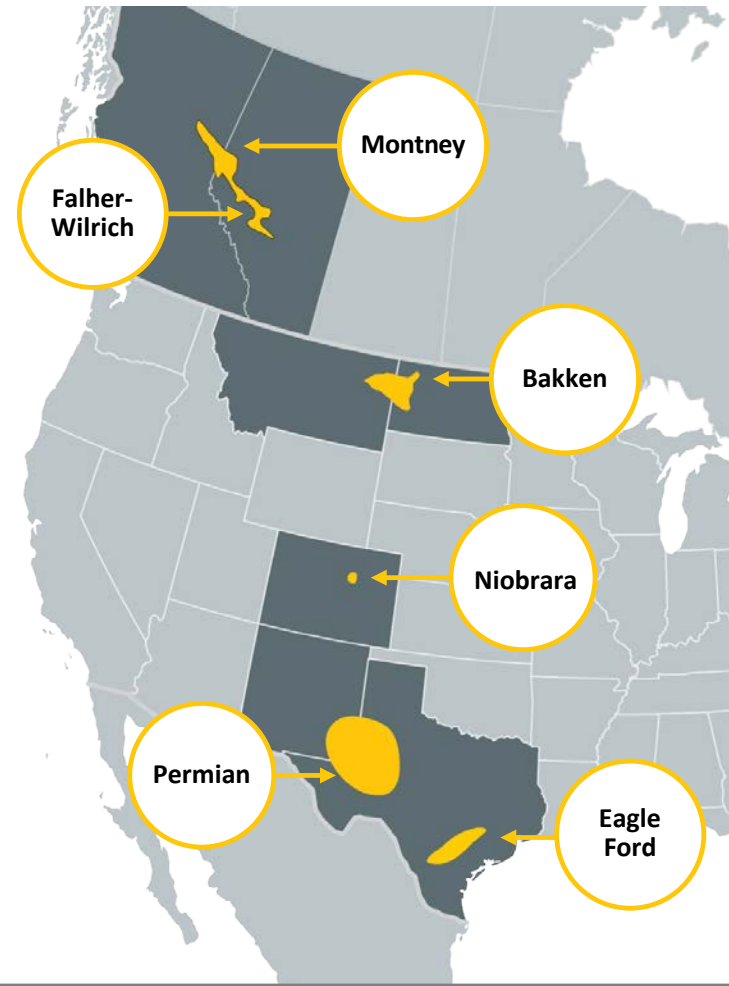
Unconventional: Top-Tier Resource Base and Growing¹

Cost of Supply (\$/bbl)



- Flexible, short-cycle investments with low execution risk
- High-margin production drives cash flow growth
- Prudent development pace maximizes value

~7 BBOE RESOURCE
~\$35/BBL AVERAGE COST OF SUPPLY



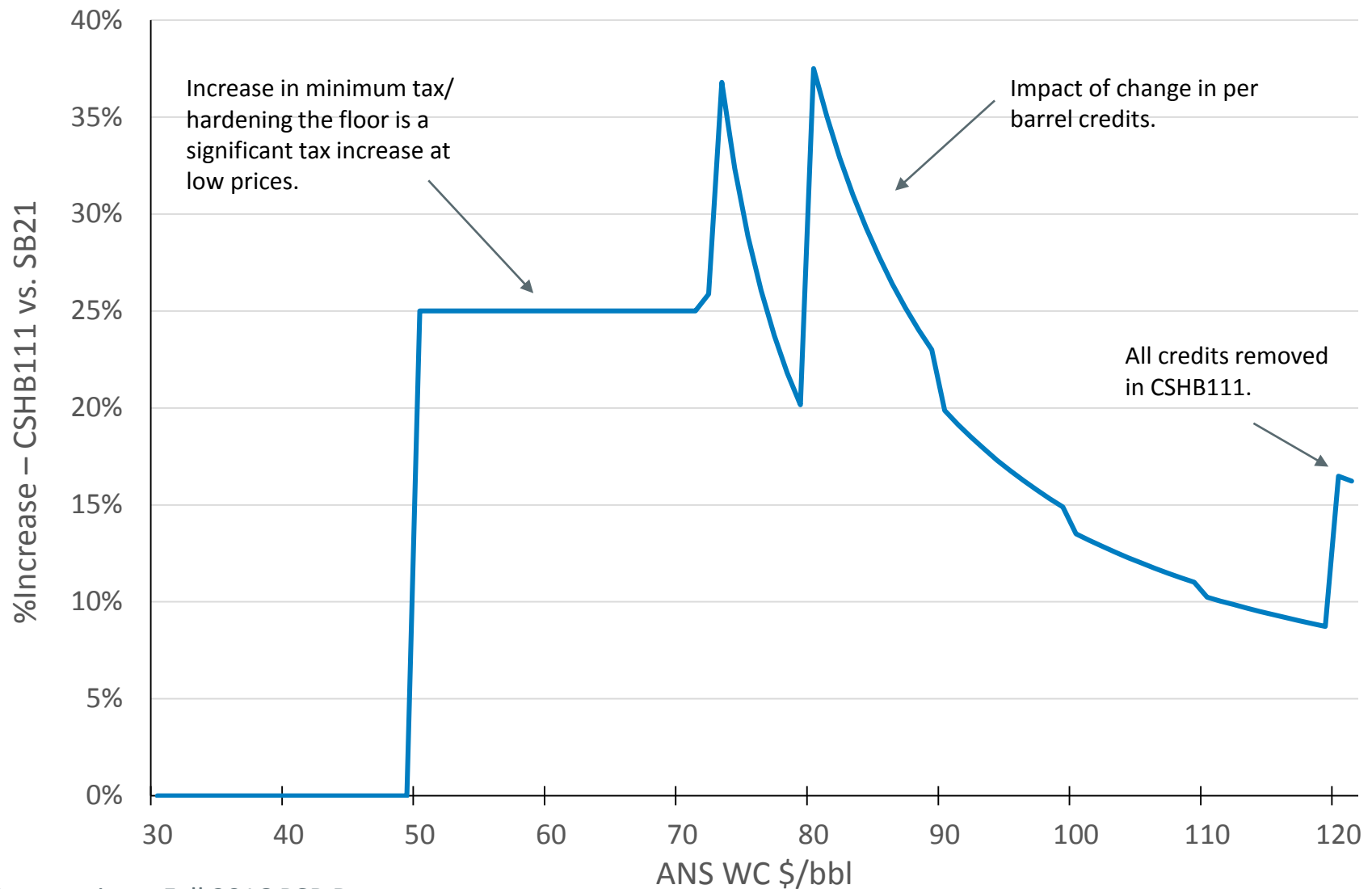
¹ Source is ConocoPhillips 2016 Analyst & Investor Meeting (November 10, 2016)

CSHB 111 – Significant Change in the Cost of Business

- Minimum tax rate increase (4% to 5%) is a 25% tax increase
- Per barrel tax credit reduction
 - Fundamentally changes tax rates
 - Significant tax increase
- Interest change punitive – State largely controls the pace of audits
- “Migrating” tax credit change
 - Creates a monthly tax
 - Inconsistent with overall tax structure
- Tax information disclosure provision bad policy
- NOL pre-approval unworkable

Increasing taxes makes Alaska less competitive

CSHB111 Represents a Significant Increase in Tax Rate

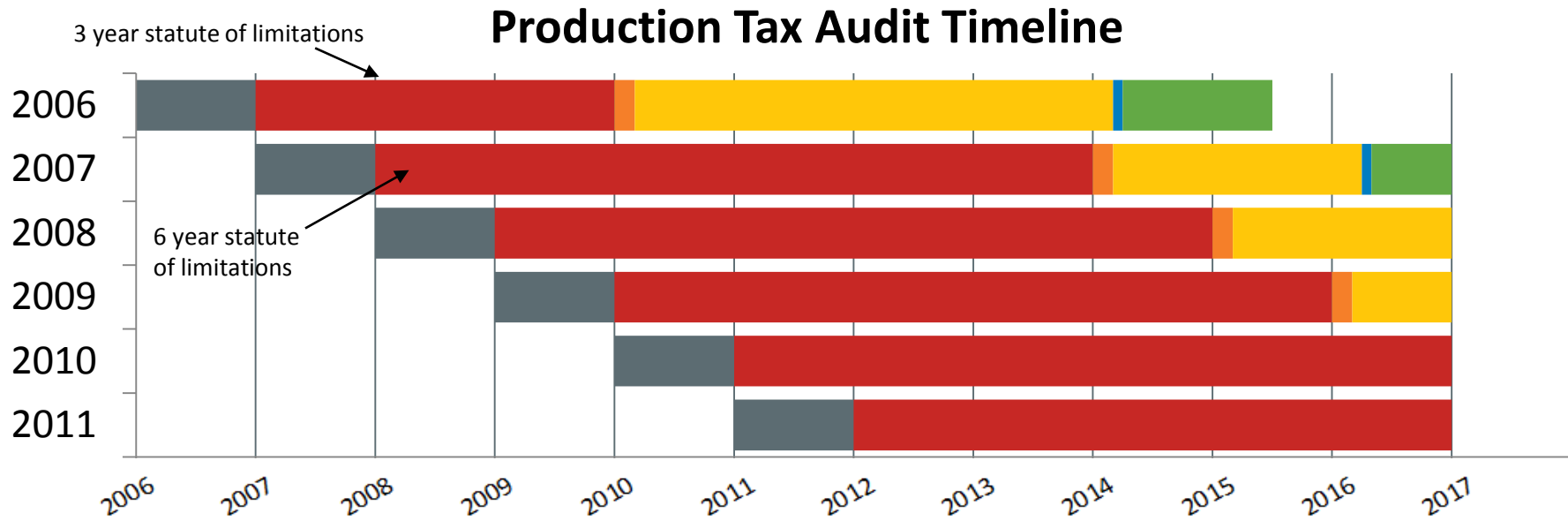


Assumptions: Fall 2016 RSB Data

“Migrating” Per Barrel Tax Credits

- Production tax is imposed annually
- Estimated payments are made monthly, an annual tax return is filed in March
- Proposed change for tax credits moves toward a monthly tax
 - Increases the complexity of an already complex tax
 - Creates an imbalance in an annual tax system – all other components are calculated on an annual basis
- No such thing as “migrating” credits – the tax system was meant to be on an annual basis

Basis For Interest Change Unsupported



- Tax Year
- Audit – ACES regulations not finalized until 2010
- Informal Appeal
 - 60 days to file from Notice & Demand
 - Appeals Officer assigned (w/in Dept.)
- Informal Decision
 - No deadline for decision
 - Decision is issued

- Formal Appeal
 - 30 days to file appeal
- Hearing
 - Office of Administrative Hearings
 - Assigns Administration Law Judge
 - No deadline for decision
 - Decision is issued

The pace of this timeline is largely determined by the State

Other Concerns

- Tax policy should be focused on the aggregate, not individual tax payer information
 - Disclosure of individual tax return information may violate SEC, anti-trust, or other regulations
 - Puts recipients at risk of violating federal law
 - Confidentiality agreements are difficult to enforce – provision provides for broad distribution
- Pre-approval of lease expenditures (NOLs) could effectively require advance approval of production, prices, and all expenses
 - Could create significant bureaucracy
 - Results in uncertainty / instability regarding tax treatment
 - No legislative guidance regarding implementation

Summary

- CSHB111 represents a significant increase in the base tax structure in an already high cost environment – moves Alaska in the wrong direction
- CSHB111 provisions regarding NOLs and individual tax disclosure requirements will create additional barriers to doing business in Alaska
- SB21 is working – it has stimulated investment resulting in jobs, production, and increased State revenue – let it continue to work