# Positive Impact of HB 110

<table>
<thead>
<tr>
<th>Governor’s Objectives</th>
<th>ConocoPhillips’ View</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Be More Competitive</td>
<td>✓</td>
</tr>
<tr>
<td>• Create More Jobs for Alaskans</td>
<td>✓</td>
</tr>
<tr>
<td>• Increase Production</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: DOR Presentation to House Resources, February 11, 2011
More Production Key to TAPS Future

Source: Alaska Department of Natural Resources Annual Report
TAPS low flow impact study presentation, House Resources, March 9, 2010
Alaska’s Decline Rate Highest in US

[Bar chart showing oil production change 2003 to 2010 for various regions, including Alaska, North Dakota, Mississippi, Utah, Colorado, Kansas, Montana, Lower 48 Offshore GOM, Oklahoma, New Mexico, Texas, US, Wyoming, California, Louisiana, and Alaska.

Source: Energy Information Administration

Regions with minimum 50,000 bopd production]
Alaska Lags Other Major Oil States

Percentage production changes are all 2010 vs. 2003

Source: Energy Information Administration
Why Isn’t Alaska Booming at $100/bbl?

Source: Energy Information Administration & Baker Hughes
Is This the Future We Want for Alaska?

Alaska Forecasted to Fall Further Behind

Source: Energy Information Administration, AEO2011 Reference Case
ELF Generated Significant Incremental Production

Source: Production forecast: DOR Fall 1989 Revenue Sources Book
Actual production: DOR website, http://www.tax.state.ak.us/sourcesbook/AlaskaProduction.pdf
Satellites timing: ConocoPhillips Internal
North Slope Investment Under ELF


Sources: DOR February 23, 2011 “Response to Questions regarding House Bill 110 on February 11, 2011” letter to House Resources Co-Chairs Feige and Seaton
DOR October 24, 2007 “Capital Spending on North Slope Wells, Field Facilities and Exploration” letter to Legislature
CERA and BLS oil and gas industry cost indexes
Alaska Not Competitive
Marginal Government Take

Source: PFC Energy
Progressivity Removes Upside

ConocoPhillips Alaska
Net Income, MM$

Source: ConocoPhillips 10-K and 10-Q
Risk-Based Decision Making

Balanced System

Value Sensitivity

-200 -100 0 100 200 300

Oil Price

Reserves

Capital Cost

Operating Cost

Schedule

Progressive System

Value Sensitivity

-200 -100 0 100 200 300

Oil Price

Reserves

Capital Cost

Operating Cost

Schedule

Value Uncertainty

Cumulative Probability

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

-500 -400 -300 -200 -100 0 100 200 300 400 500

Balanced Govt Take

Progressive Govt Take

53% Chance of Losing Money

40% Chance of Losing Money

Generic project example for illustrative purposes
Progressivity Breaks Risk / Reward Balance

Example – $1Billion capital investment

- Adequate returns in success case justify upfront investment risk
- Alaska onshore fiscal terms: Risk / reward is out of balance

Federal (OCS)

- Government takes
- Alaska Offshore Investor Keeps

Alaska

- Government takes
- Alaska Onshore Investor keeps

Invested $1Billion

Oil Price - $/bbl

Discounted cash flow

Government take is after Alaska credits
Core Fields are Key to State Production

Core fields are:

- ~90% of North Slope 2010 production
- Key to stemming decline

Source: DOR 2009 production forecast 2010 – 2050 volumes
Investment Reduces Production Decline

Kuparuk Production - MBD

Alpine Production - MBD

Source: ConocoPhillips Internal
HB 110 Improves Alaska Investment Climate

- **Existing Units**
  - Bracketing Progressivity is critical component
  - Moves Alaska toward a more balanced risk/reward environment
  - Incentivizes investment in core fields and existing units
  - Supports longer term projects / longer term investment

- **Improved Well Credits**
  - Incentivizes well related activity
  - Increased drilling/workovers provide additional short-term jobs
  - Support language being clarified to include workovers

- **Administrative Improvements**
  - Audit period to 4 years – provides improved tax payment predictability
  - Interest – eliminates punitive rate for good faith tax filings
  - Monthly vs. annual progressivity – improves alignment on cost and revenue calculations

- **Effective Date**
  - COP believes effective dates should be accelerated by 1 year

ConocoPhillips Supports HB 110
### Alaska’s Oil Future is At Risk

<table>
<thead>
<tr>
<th></th>
<th>Lower 48</th>
<th>Alaska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Price</td>
<td>Up</td>
<td>Up</td>
</tr>
<tr>
<td>Active Rigs</td>
<td>Up</td>
<td>Flat</td>
</tr>
<tr>
<td>Actual Production</td>
<td>Up</td>
<td>Down</td>
</tr>
<tr>
<td>Expected Future Production</td>
<td>Up</td>
<td>Down</td>
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**HB 110 Important to Changing this Picture**