Senate Special Committee on TAPS Throughput

SB21

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February 5, 2013
Topics

- Alaska’s Production Challenge
- Investment Considerations and Alaska’s Cost Environment
- ACES and SB21
- Observations
Alaska Decline Continues While Lower 48 Continues to Increase

Source: U.S. Energy Information Administration
Alaska Legacy Fields Still Provide Significant Opportunity

*Source: DOR 2009 production forecast 2010 – 2050 volumes

Legacy Fields are...
- About 90% of North Slope 2012 production
- Lion’s share of estimated future production
- Key to offsetting ANS decline
Investment Criteria: How Alaska Ranks

- **Exploration Prospectivity**
  - Expected field size/maturity
  - Crude quality

- **Costs**
  - Exploration, development & production cost
  - Transportation costs to market

- **Cycle Time**
  - Time to production
  - Permitting/regulatory environment

- **Taxes**
  - Tax rates given challenged location
  - Tax rates compared to other states & countries

- **Legacy Field Opportunities**
  - Billions of barrels left to be developed
  - Significant production volumes

**VALUE**
Alaska’s Days of “Easy Oil” Are Gone: High Costs and High Government Take Present Challenges

Costs are significantly higher in Alaska than the Lower 48 – even compared to unconventional. Meanwhile, Alaska’s Government Take has risen significantly over recent years, meaning new project economics can be very challenging.
“Easy Oil” In the Legacy Fields Is Gone

- Challenged oil remains
  - Complex, high cost wells
  - Smaller reserve targets
  - Isolated fault blocks, flank oil
  - Satellites and viscous oil
  - Most new wells produce oil AND water
  - Facilities handling ~ three times as much water as oil

- A billion dollars does not go as far as it used to...
  - 2000 Alpine development: ~80,000 BOPD
  - 2012 CD-5 Drillsite: ~18,000 BOPD
ACES Marginal Industry Share

Government and Industry Marginal Share in Alaska

- Industry Share
- Federal Share
- State Share

Progressivity effect

Based on Fall 2012 Revenue Sources Book data for FY2014
Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska

2007 oil at $70/bbl: COP earned $21/boe; State earned $27/boe

2011 oil at $106/bbl: COP earned $24/boe; State earned $51/boe

ACES progressivity takes the upside

Source: ConocoPhillips 10-K, 2007-2011; State share is royalties (estimated), production tax, ad valorem tax and state income tax, oil prices are average realized prices by ConocoPhillips on the West Coast
Producer Share under SB21

Based on Fall 2012 Revenue Sources Book data for FY2014

ANS West Coast Oil Price, $/Bbl

Producer Share

ACES

SB21
Observations

- **ACES**
  - Progressivity takes the upside and discourages investment
  - Tax credit investment incentives positive, but do not offset the negative effects of ACES progressivity

- **SB21 Positive Elements**
  - Positive step to improve Alaska’s business climate
  - Solves the high marginal tax problem
  - Makes Alaska more competitive at $100+ prices

- **SB21 Areas for Improvement**
  - Bill does not contain sufficient investment incentives for legacy fields to offset Alaska’s high cost environment
  - Does not encourage investment relative to ACES in a downward trending oil price environment