HB2001 Testimony

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ConocoPhillips Alaska

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Agenda

- ConocoPhillips overview
- Summary comment
- Specifics on the bill:
  - Reporting requirements
  - Cost deductibility
  - Transitional Investment Expenditure (TIE) credits
  - 10% minimum/legacy fields
  - Impact on investment

ConocoPhillips in Alaska Today

- **Alaska's #1 Oil Producer**
  - 2006 production: 280,000 barrels of oil per day
- **Alaska's #1 Gas Producer**
  - 2006 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
- **Largest Industry Community Supporter**
  - 2006 > $12 Million Contributions
  - 2007 > $14 million (projected)
- **1,093 Employees**
  - Annual payroll over $122 Million
- **Largest Royalty and Taxpayer**
  - 2006 taxes paid to government: $2.3 billion
  - Royalties: $730 million
- **Alaska Capital and Operating Budget**
  - More than $12 Billion invested over past 10 years

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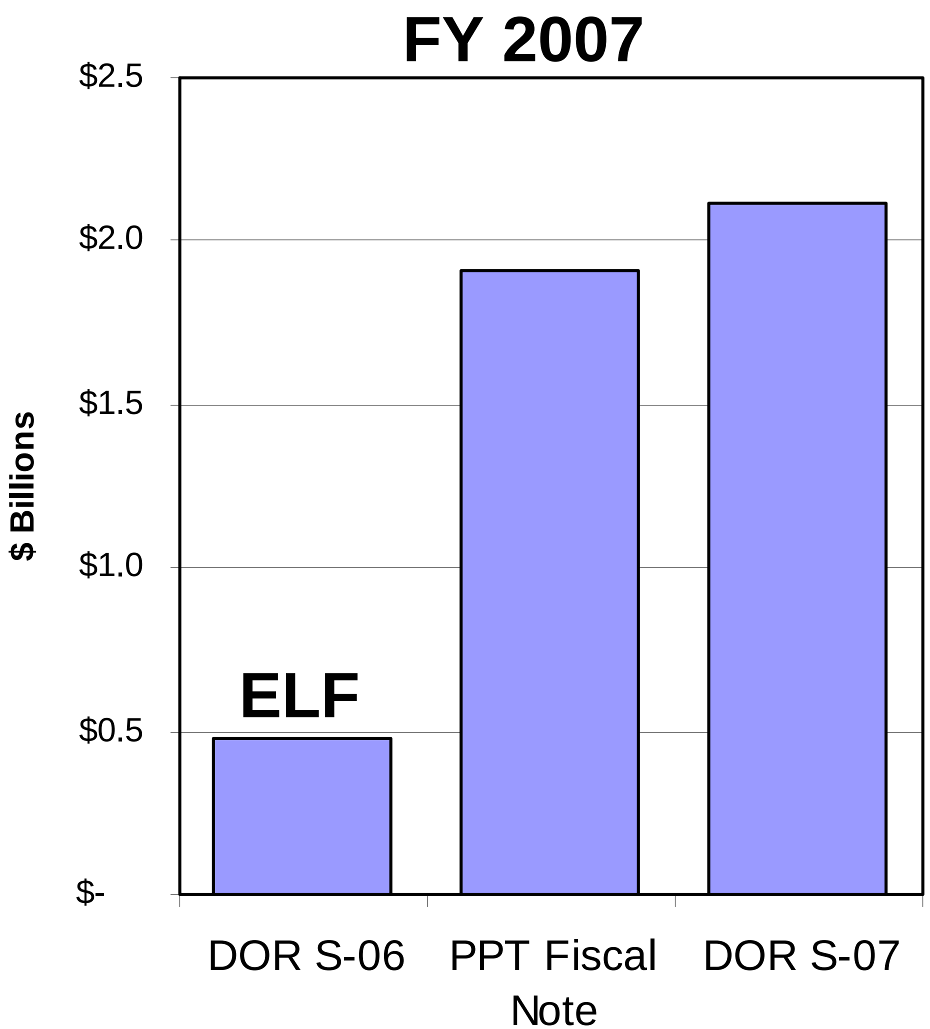
Summary Comment

- Common interest between state and industry
- Too early to change PPT
- Uncertainty created by frequency of tax changes
- Impact on investment

Revenue Forecasts



- Forecasting uncertainty
- Price
- Production
- Operating costs
- Capital costs

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Reporting to State

- Generally supportive of additional transparency
- But, certain areas of concern in bill:
  - Exploration
    - DOR allowed to share all information with DNR without limits
    - DNR determination of geological success in credit application
    - Exploration credit application waives confidentiality rights
  - Forecast data requests should rely on information already provided by unit operator to partners
  - “Whatever else” language is too broad

Cost Deductibility

- Net profit approach
- Inappropriate for regulatory agency to define deductions
- Unreliable advisory bulletins
- Unscheduled maintenance exclusion:
  - Definitions/complexity
  - Audit challenges
  - Disallowance of maintenance that brings production back online
  - Retroactive implementation
- Exclusion for dismantlement costs
  - Legitimate leasehold cost

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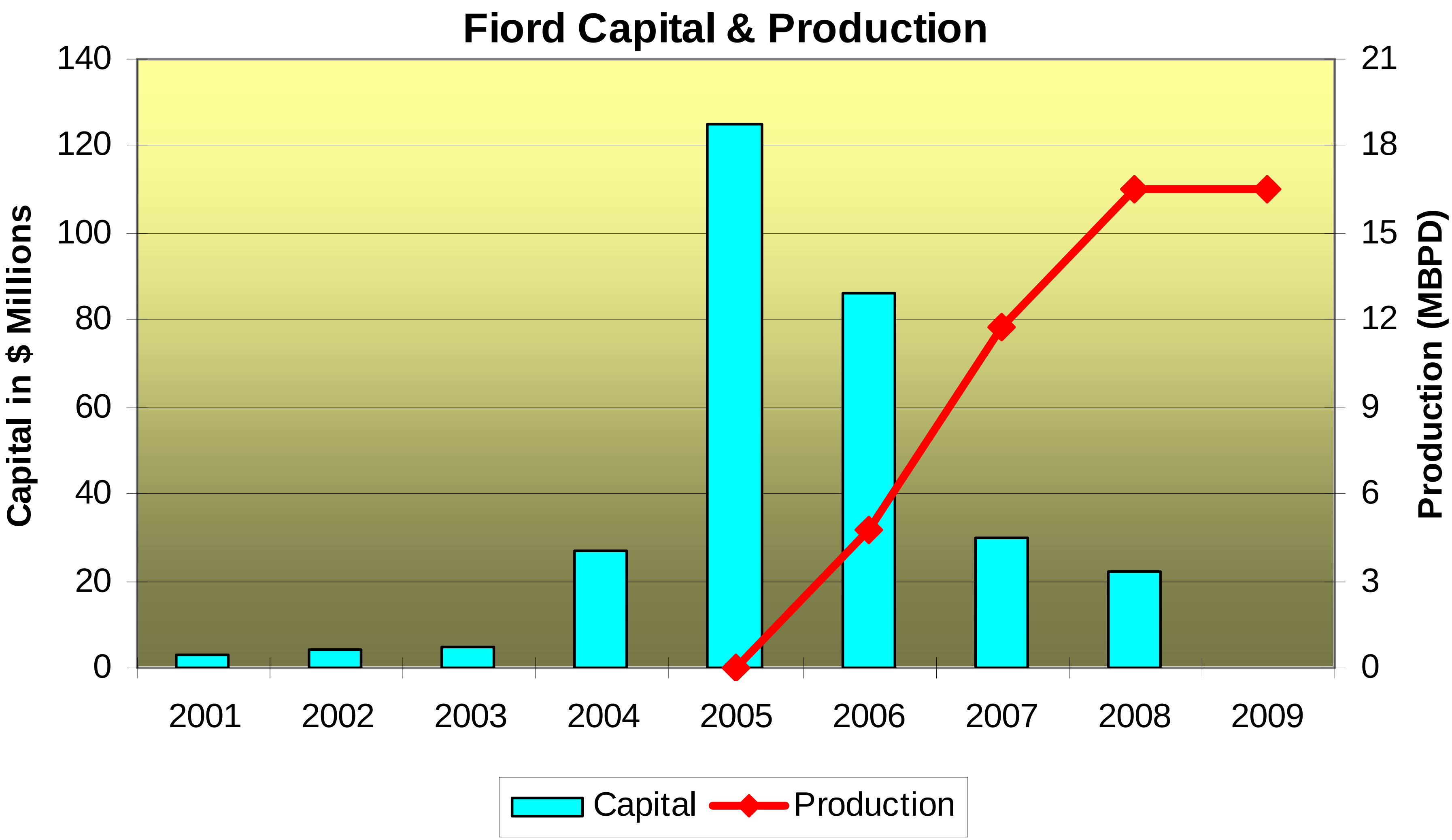
Cost Deductibility

- Crude oil topping plant exclusion
  - Current diesel production at Prudhoe and Kuparuk
  - 2 options to meet ultra low sulfur diesel requirements:
    - Build ULSD plant at Kuparuk to serve all North Slope needs
    - Transport to North Slope from Alaska or L48 supply

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



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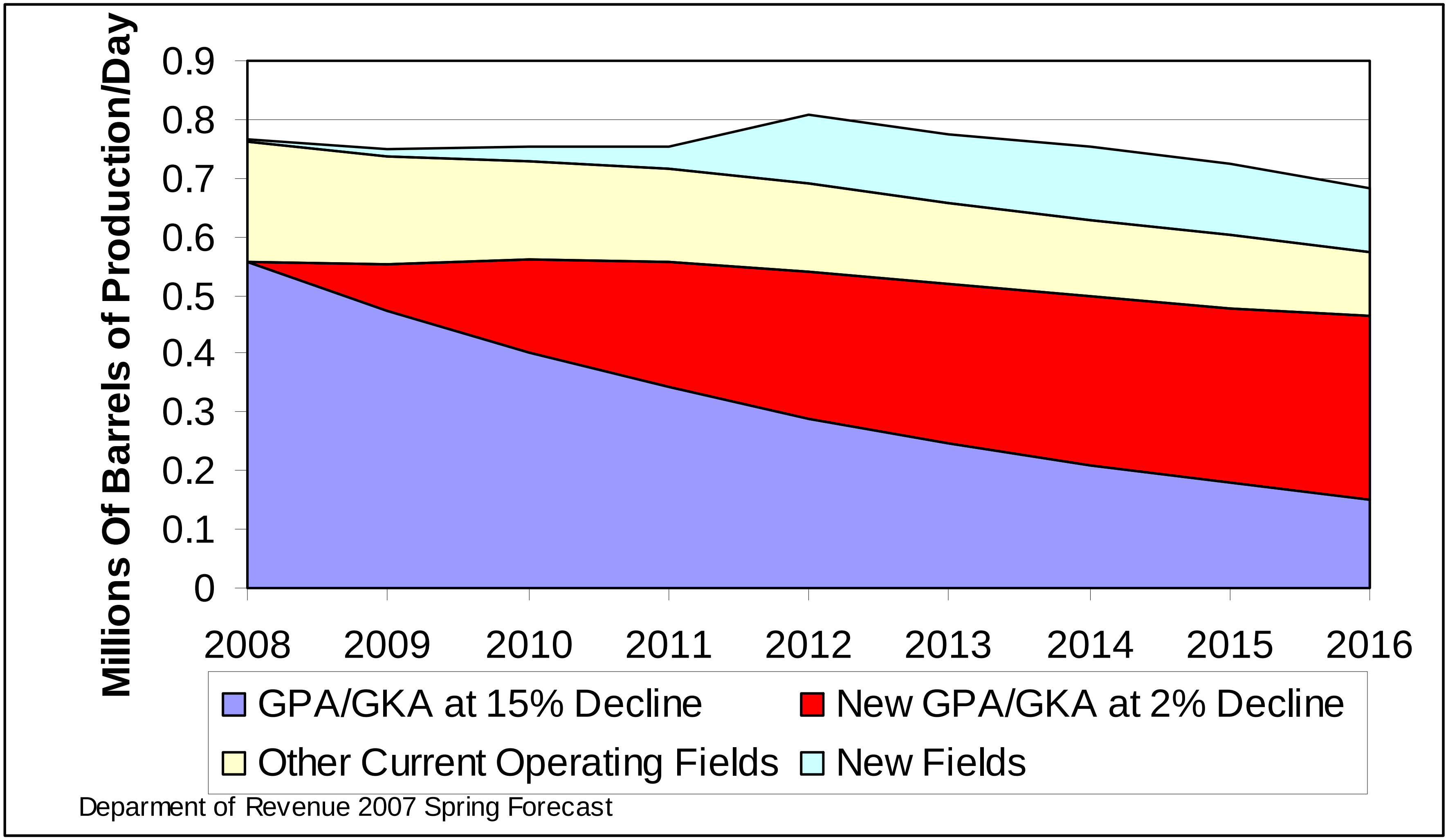
Significance of Legacy Assets



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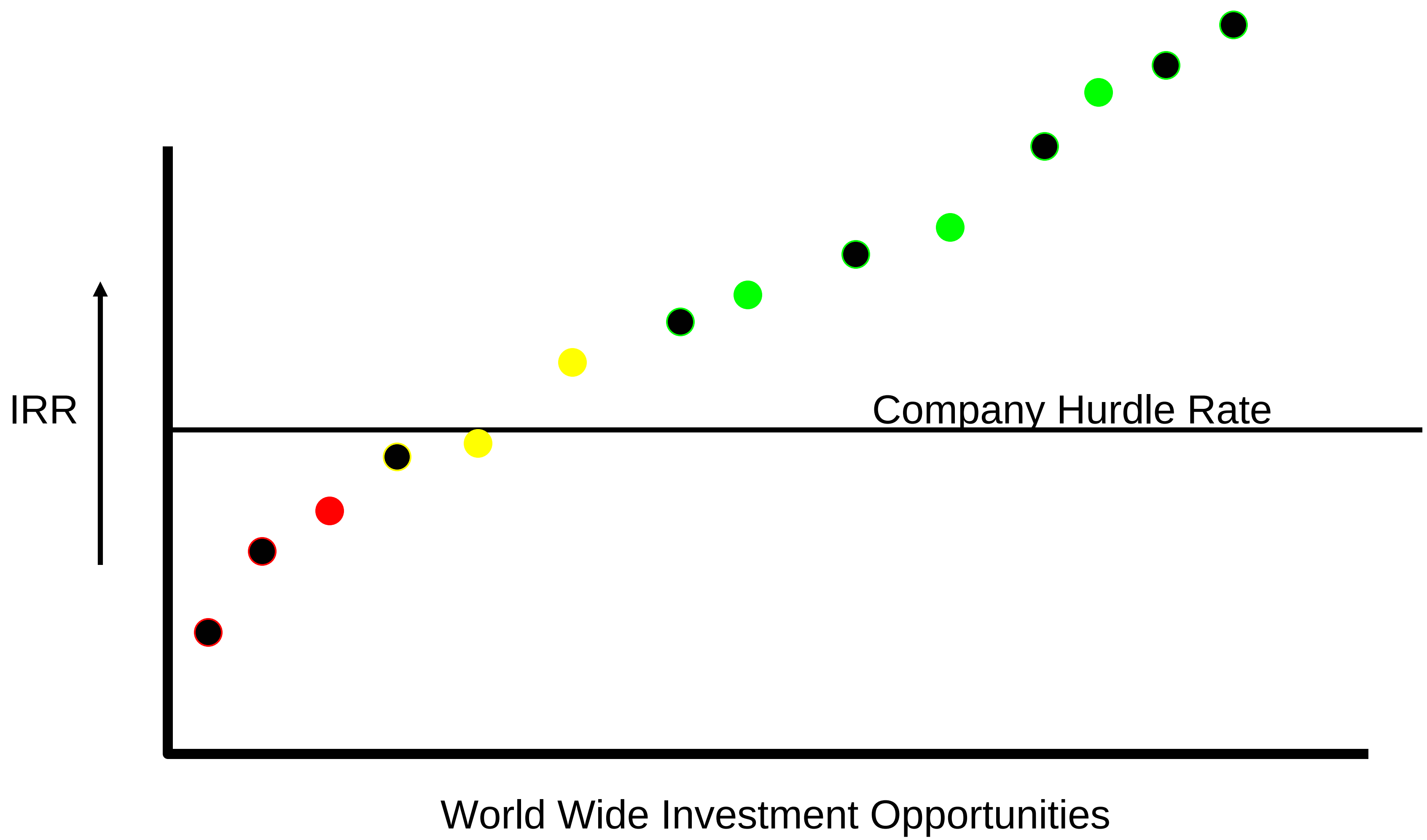
Tax Change Impacts On Project Economics



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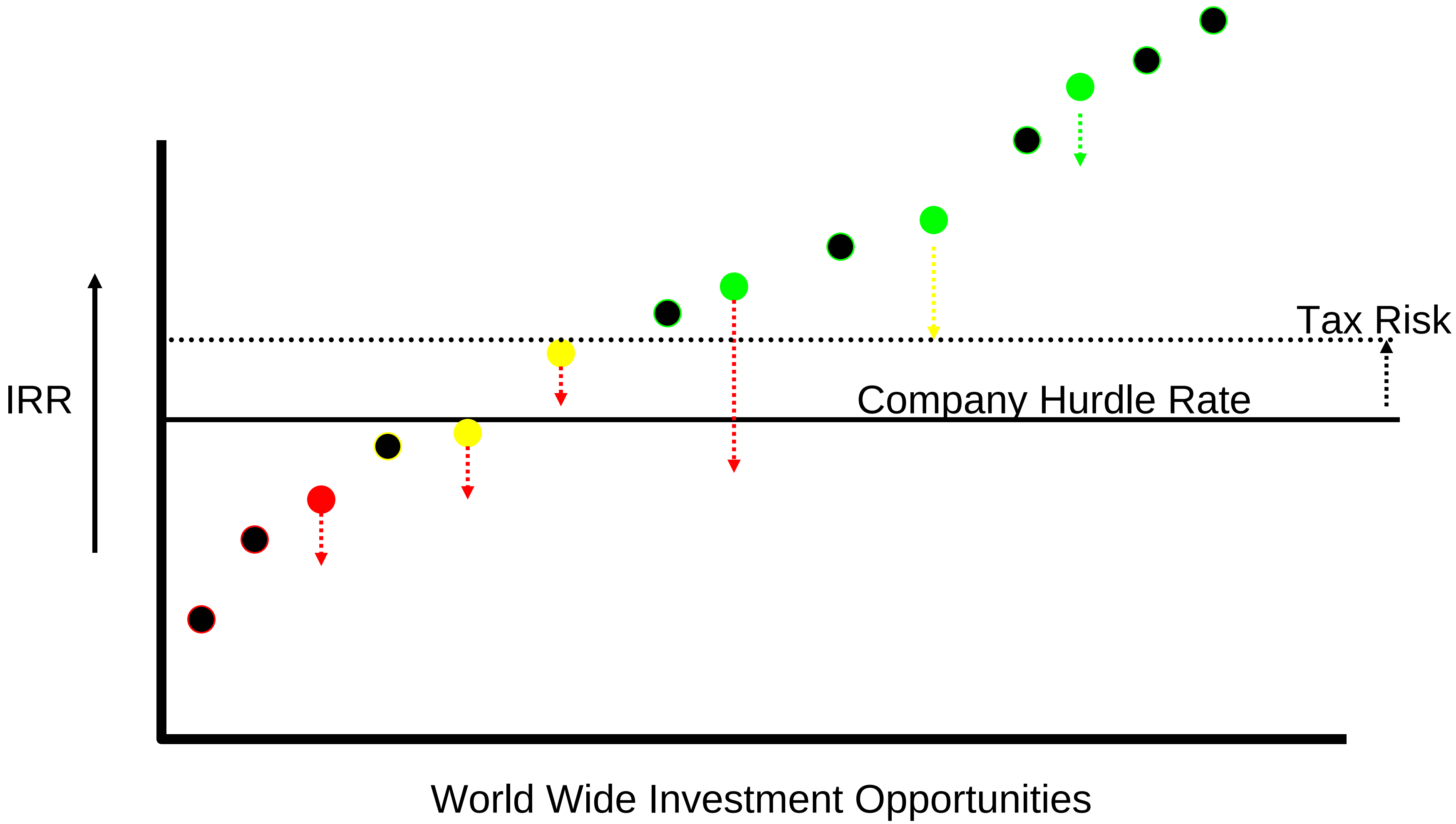
Tax Change Impacts On Project Economics



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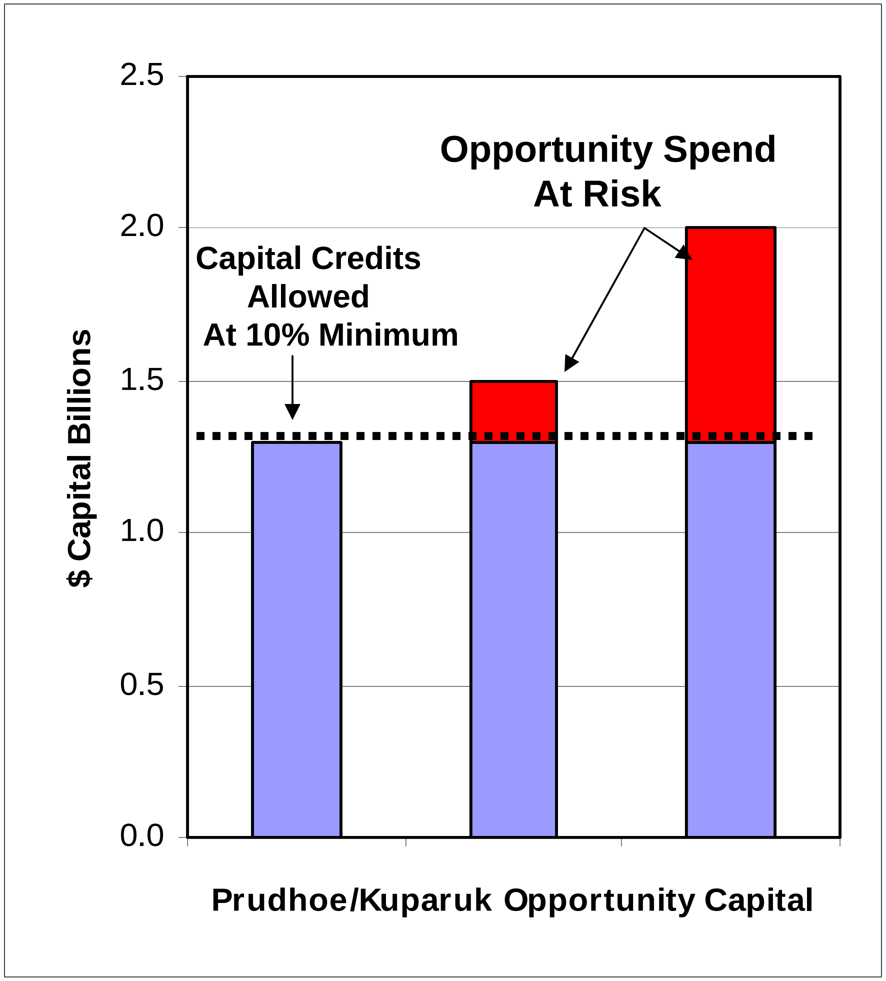
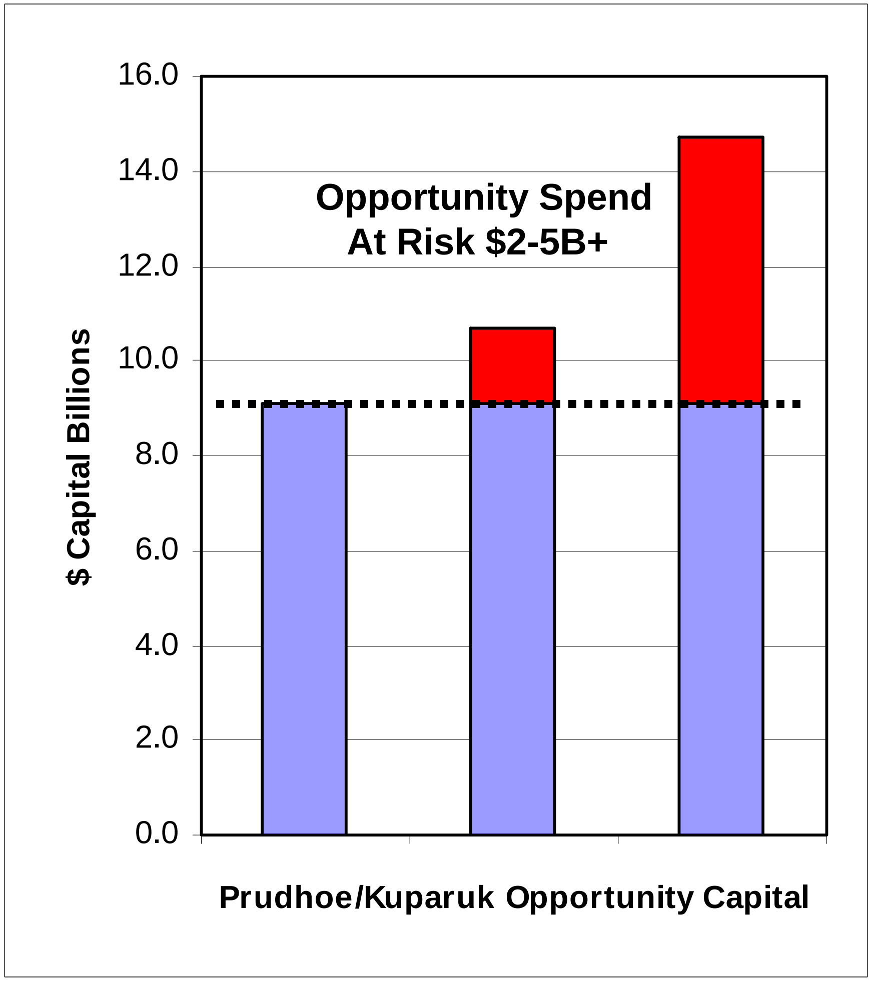
Potential Legacy Impact on Capital Spend

Annual View



Through 2014



At State Price Forecast

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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

Closing Comment

- State and industry need to be aligned to foster investment environment
- Too early to significantly change PPT
  - Forecast uncertainties
  - Revenue Projections are being met based upon the 2007 actuals
- Uncertainty created by frequency of tax changes alters investor's risk tolerance
- Selective deductability adds confusion, administrative complexity and will modify cost behavior
- Increase tax erodes investment value by reducing cash available for reinvestment
- 10% Legacy Floor is a disincentive to investment
  - Limits amount of capital which can qualify for deductability rendering the marginal project uneconomic
  - Low price can invoke the minimum at the wrong time

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