

SB2001 Testimony

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ConocoPhillips Alaska

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ConocoPhillips in Alaska Today

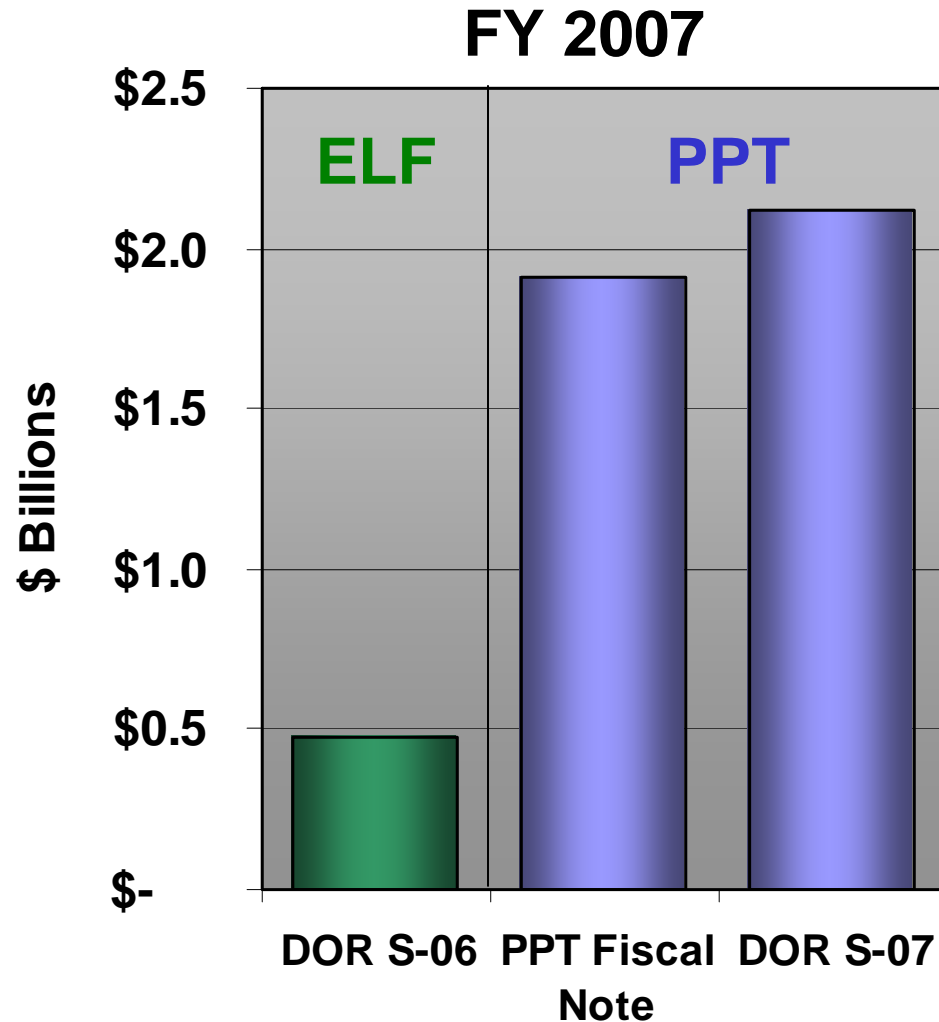


- **Alaska's Largest Producer**
 - 2006 oil production: 280,000 barrels of oil per day
 - 2006 gas production: 145 million cubic feet per day
- **Alaska's Largest Lease Holder**
 - Interest in 1.7 million gross (federal) acres in the NPRA
 - Nearly 2.6 million gross undeveloped acres in total outside of producing fields
- **Alaska's Leading Explorer**
 - 60 exploration wells since 1999, including 17 wells in NPRA
- **Alaska's Largest Industry Community Supporter**
 - 2006 > \$12 Million Contributions
 - 2007 > \$14 million (projected)
- **Alaska's Largest Royalty and Taxpayer**
 - 2006 taxes paid to government: \$2.3 billion
 - 2006 royalties: \$730 million

Summary Comment

- Interest between state and industry should be aligned
- Too early to change PPT
- Tax changes will impact investment
 - Increased tax take
 - Effect of 10% legacy floor
 - Uncertainty with frequent tax changes

Revenue Forecasts



Revenues meeting targets despite forecasting uncertainty associated with:

- Price
- Production
- Operating costs
- Capital costs

Too early to change

Impact of the 10% Legacy Floor

- The 10% minimum gross on the legacy fields can have a broader impact than simply downside price protection
- Minimum tax can be triggered by:
 - Low prices
 - Investment

Base Rate vs 10% Legacy Floor

Level of Investment

Low

Base Tax Calculations

| | |
|------------------|--|
| Wellhead Revenue | |
| - Opex | |
| - Capex | |
| <hr/> | |
| <hr/> | |
| = Net Profit | |

| | |
|--------------------------------|--|
| 25% Net Profit Tax | |
| - 20% Capital Credits | |
| <hr/> | |
| <hr/> | |
| = Net Tax After Credits | |

Min Tax Calculations

| | |
|-----------------------|--|
| Wellhead Revenue | |
| x Gross Tax Rate | |
| <hr/> | |
| <hr/> | |
| = Min Tax (\$) | |

| | | |
|-------|---------|--------------|
| \$ | 50.00 | |
| \$ | (10.00) | |
| \$ | (10.00) | |
| <hr/> | | |
| \$ | 30.00 | |
| \$ | 7.50 | = 25% * \$30 |
| \$ | (2.00) | = 20% * \$10 |
| <hr/> | | |
| \$ | 5.50 | |
| <hr/> | | |
| \$ | 50.00 | |
| | 10% | |
| <hr/> | | |
| \$ | 5.00 | |

Net Exceeds Min:
Tax Due = \$5.50

Investment Can Trigger Legacy Floor

| | Level of Investment | |
|--------------------------------|---------------------|-------------------|
| | Low | Potential |
| Base Tax Calculations | | |
| Wellhead Revenue | \$ 50.00 | \$ 50.00 |
| - Opex | \$ (10.00) | \$ (10.00) |
| - Capex | \$ (10.00) | \$ (20.00) |
| = Net Profit | \$ 30.00 | \$ 20.00 |
| 25% Net Profit Tax | \$ 7.50 | \$ 5.00 |
| - 20% Capital Credits | \$ (2.00) | \$ (4.00) |
| = Net Tax After Credits | \$ 5.50 | \$ 1.00 |
| Min Tax Calculations | | |
| Wellhead Revenue | \$ 50.00 | \$ 50.00 |
| x Gross Tax Rate | 10% | 10% |
| = Min Tax (\$) | \$ 5.00 | \$ 5.00 |

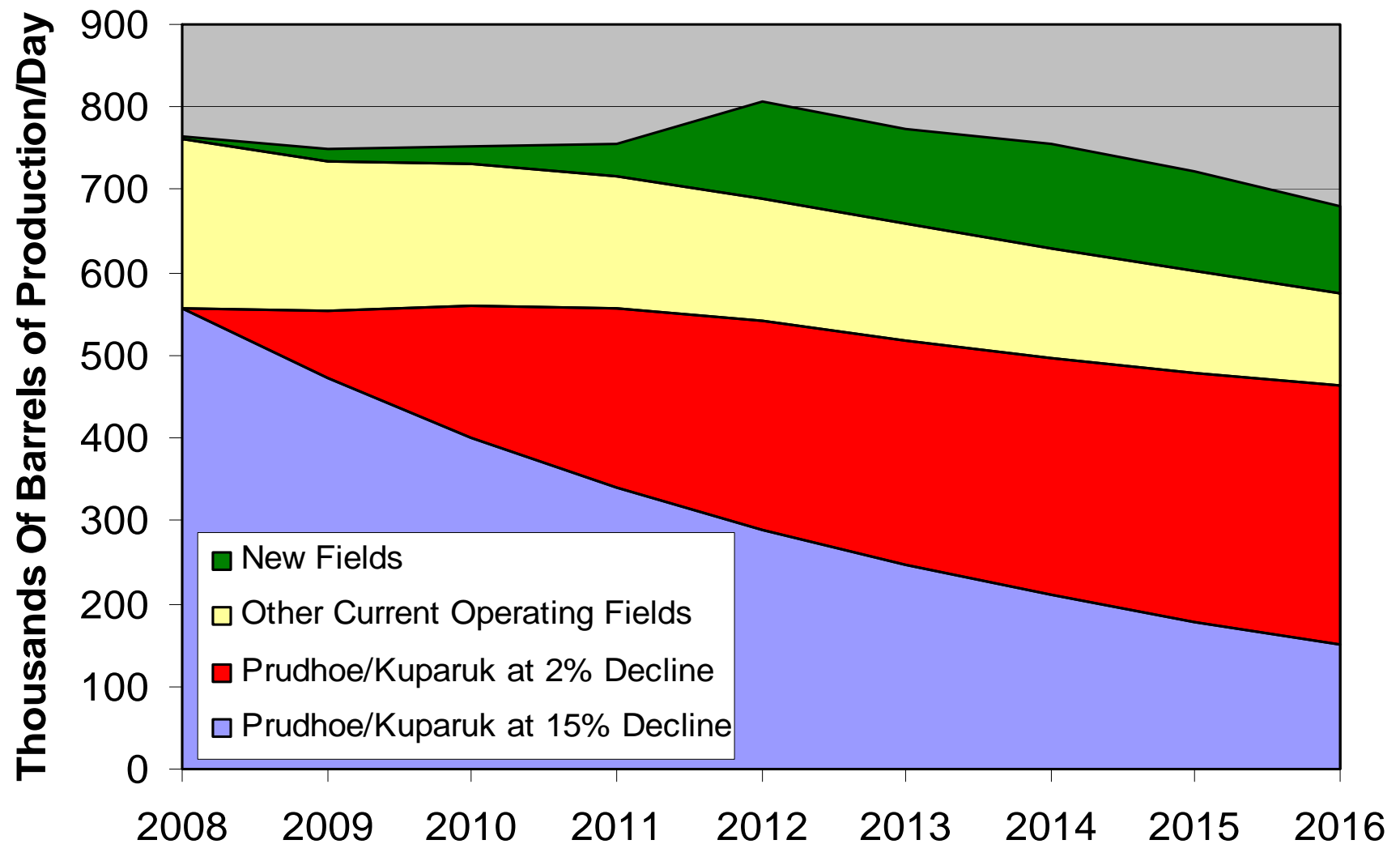
Min Exceeds Net:
Tax Due = \$5.00

Potential Kuparuk Tax Calculation

| | Level of Investment | |
|--------------------------------|---------------------|-----------------|
| | DOR | Potential |
| Base Tax Calculations | | |
| Wellhead Revenue | \$ 2,800 | \$ 2,800 |
| - Opex | \$ (450) | \$ (450) |
| - Capex | \$ (400) | \$ (800) |
| = Net Profit | \$ 1,950 | \$ 1,550 |
| 25% Net Profit Tax | \$ 488 | \$ 388 |
| - 20% Capital Credits | \$ (80) | \$ (160) |
| = Net Tax After Credits | \$ 408 | \$ 228 |
| Min Tax Calculations | | |
| Wellhead Revenue | \$ 2,800 | \$ 2,800 |
| x Gross Tax Rate | 10% | 10% |
| = Min Tax (\$) | \$ 280 | \$ 280 |

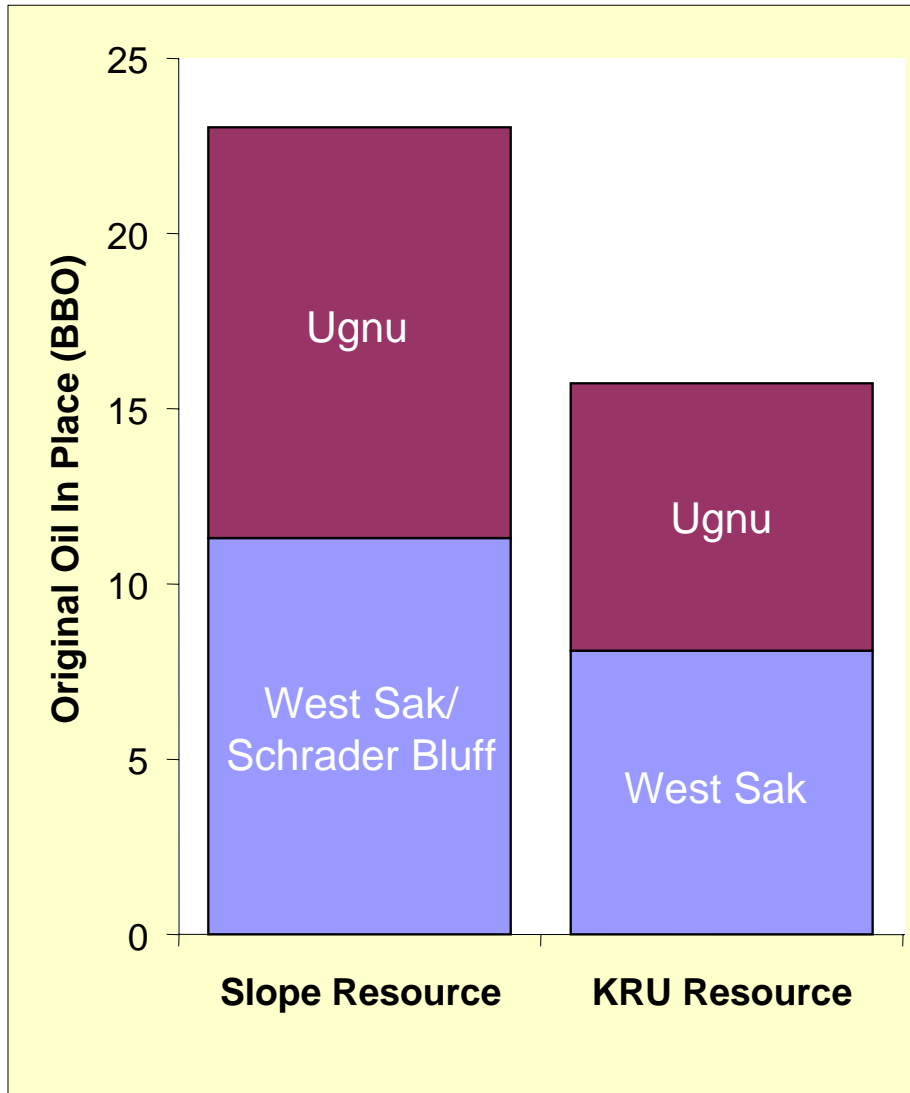
Data based on State DOR Spring Revenue Forecast 2007 for Kuparuk 2009 production and wellhead price Opex of \$7.75/bbl and capex of \$6.81/bbl based on Aug 3, 2007 PPT Status Report

Significance of Legacy Assets



Department of Revenue 2007 Spring Forecast

The Prize: North Slope Heavy Oil Resources



19 API Crude

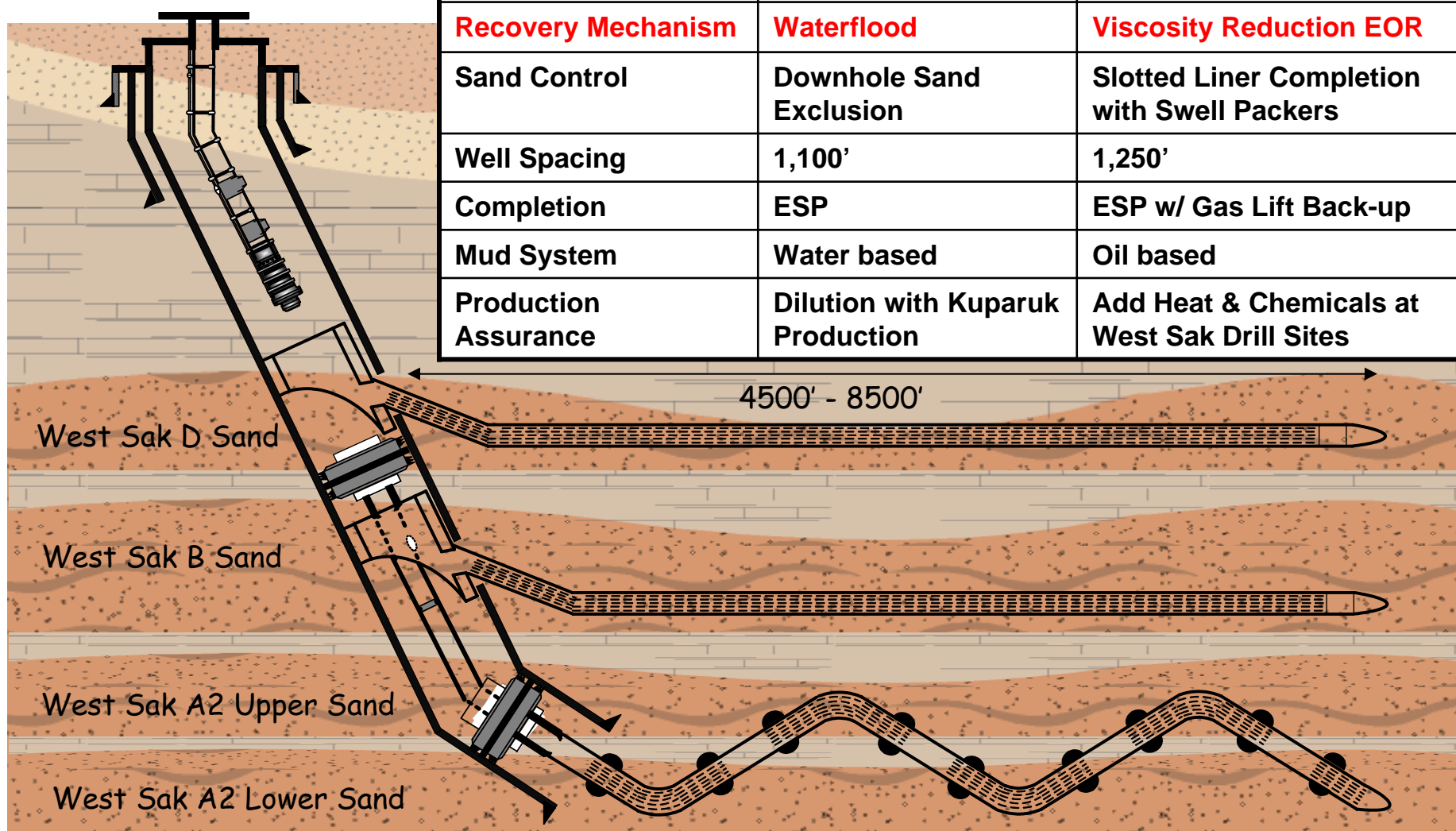


10 API Crude

- Shallow reservoirs (3,000 to 4,500')
- 1,800' of permafrost
- "Cold" Temperature (40° to 90° F)
- High viscosities for given API gravities (10's to 1000's cp)
- Low rates and recovery factors

West Sak Tri-Lateral Producer

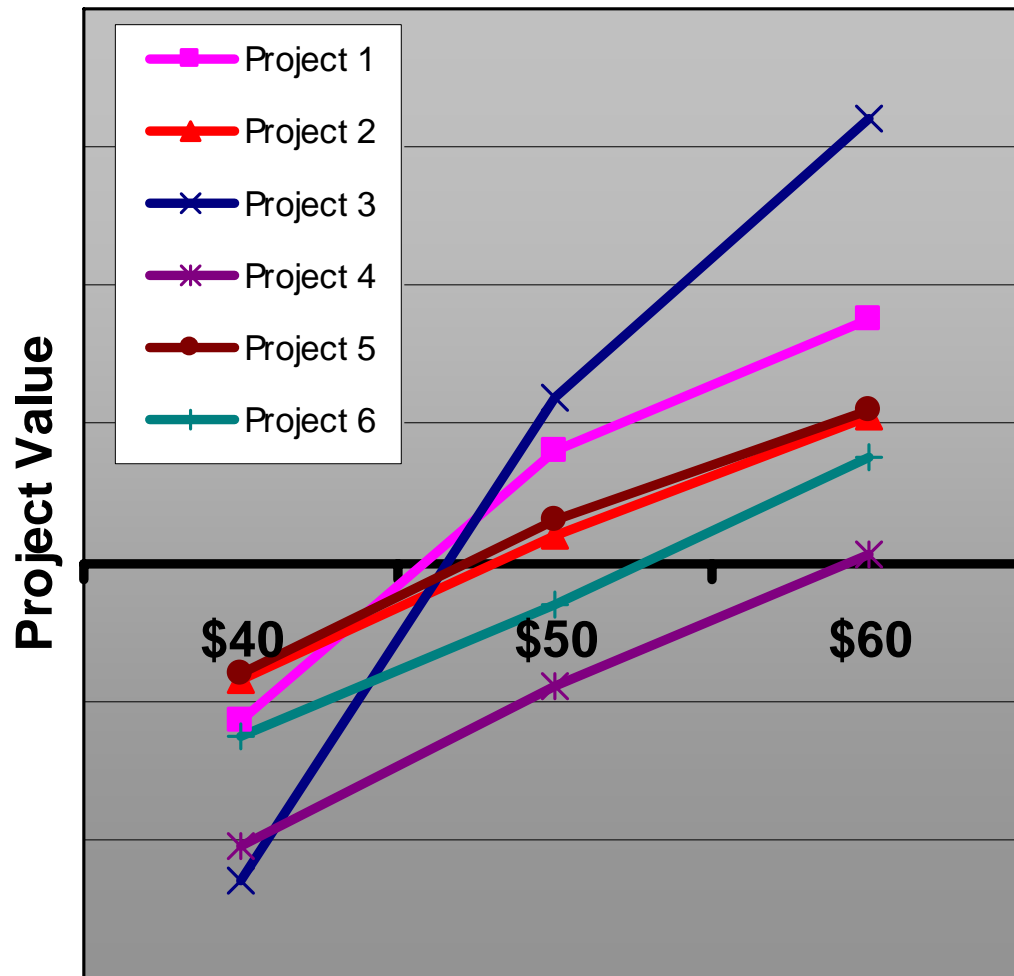
| Component of Development Plan | 1998 | 2004+ |
|-------------------------------|----------------------------------|--|
| Well Types | Vertical | Horizontal Multi-Lateral |
| Drilling Reach | Moderate | Extended |
| Recovery Mechanism | Waterflood | Viscosity Reduction EOR |
| Sand Control | Downhole Sand Exclusion | Slotted Liner Completion with Swell Packers |
| Well Spacing | 1,100' | 1,250' |
| Completion | ESP | ESP w/ Gas Lift Back-up |
| Mud System | Water based | Oil based |
| Production Assurance | Dilution with Kuparuk Production | Add Heat & Chemicals at West Sak Drill Sites |



Project Analysis

| | Finniza's | Prudhoe/Kuparuk Projects | | | | | | |
|------------------|--------------|--------------------------|----------|----------|----------|----------|----------|---------|
| | Field A | 1 | 2 | 3 | 4 | 5 | 6 | Totals |
| Legacy Field | ● | ● | ● | ● | ● | ● | ● | |
| Satellite | ● | | | ● | ● | ● | ● | |
| Stand Alone | | | | | | | | |
| Heavy Oil | ● | | ● | ● | ● | ● | ● | |
| Reserves (MMB) | 80 | 56 | 60 | 53 | 19 | 18 | 52 | 258 MMB |
| Ownership | Existing | Existing | Existing | Existing | Existing | Existing | Existing | |
| Capital (\$/B) | \$ 11 | \$ 11 | \$ 15 | \$ 16 | \$ 21 | \$ 19 | \$ 16 | \$3.9 B |
| Expense (\$/B) | \$ 7 | \$ 6 | \$ 7 | \$ 5 | \$ 8 | \$ 5 | \$ 11 | \$1.8 B |
| Production Start | hypothetical | 2010 | 2010 | 2010 | 2012 | 2012 | 2013 | |

Project Economics Under Current PPT



- Projects challenged with higher development costs
- Higher price environment has enabled viability
- Tax change will erode economics

Impact on Investment

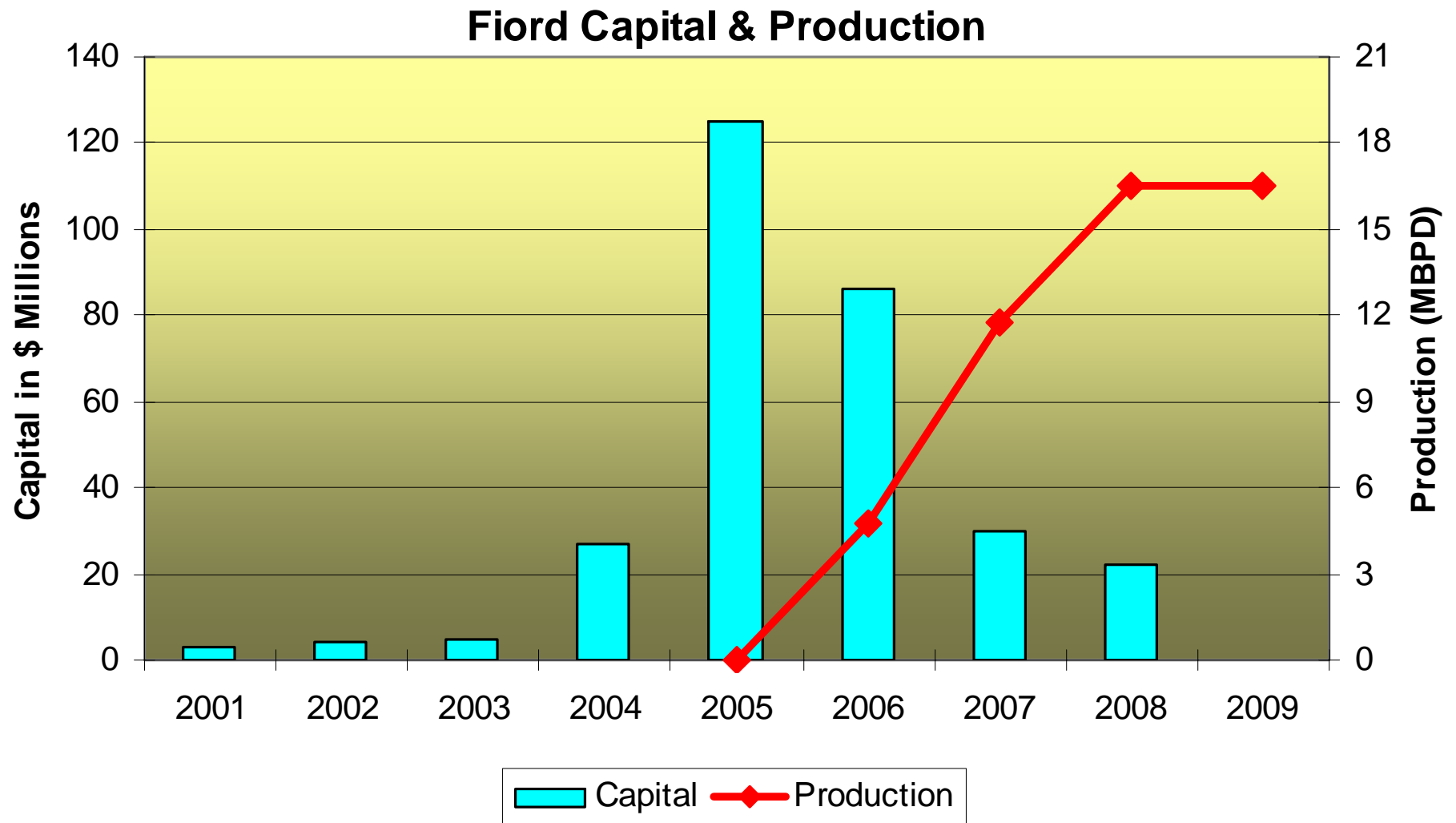
| | PPT | Bill 25/20 | Bill 10% Min |
|-----------|----------|---------------|-----------------|
| Project 1 | Economic | Economic | Marginal |
| Project 2 | Economic | Marginal | Marginal |
| Project 3 | Economic | Economic | Marginal |
| Project 4 | Marginal | Marginal | Not Economic |
| Project 5 | 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

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



Other Provisions

- Supportive of additional transparency in reporting
- But, certain areas of concern in bill:
 - Exploration confidentiality
 - Cost Deductions:
 - Statute should define lease expenditure deduction
 - Unscheduled maintenance exclusion
 - Exclusion of topping plant expenditures and investment
 - Exclusion of dismantlement costs

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