



BP Presentation on HB 2001 House Resources Committee

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Key Messages

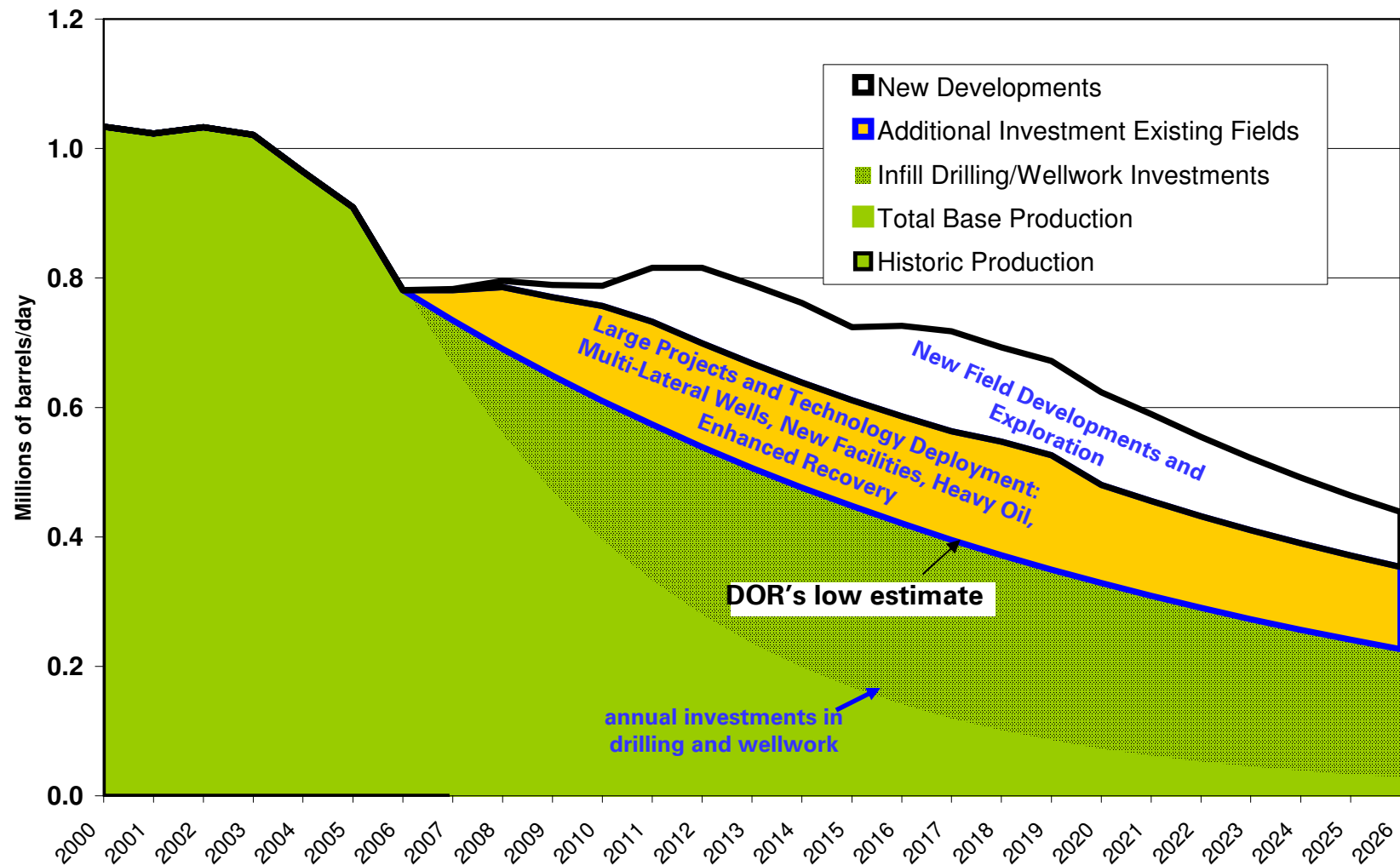


- **Production**, not tax rate, is the major factor in determining state revenue for the future years
- Delivering the production forecast will require tens of billions of **investment**
- Investment decisions are made on the combination of strategy, resource prospects, technology, economics, and risk, including fiscal terms and stability
- Higher prices and developing technology could give the Alaska fields a new lease on life, but huge **investments are needed**
- The proposed bill by the Administration significantly **deteriorates economics on 70%** of investment options in the next 20 years
- Committee substitute bill retain the portions of the original proposal that **increase investment risk**

Future of oil production is critically dependent on existing large fields, additional investments



DOR Production History and Forecast



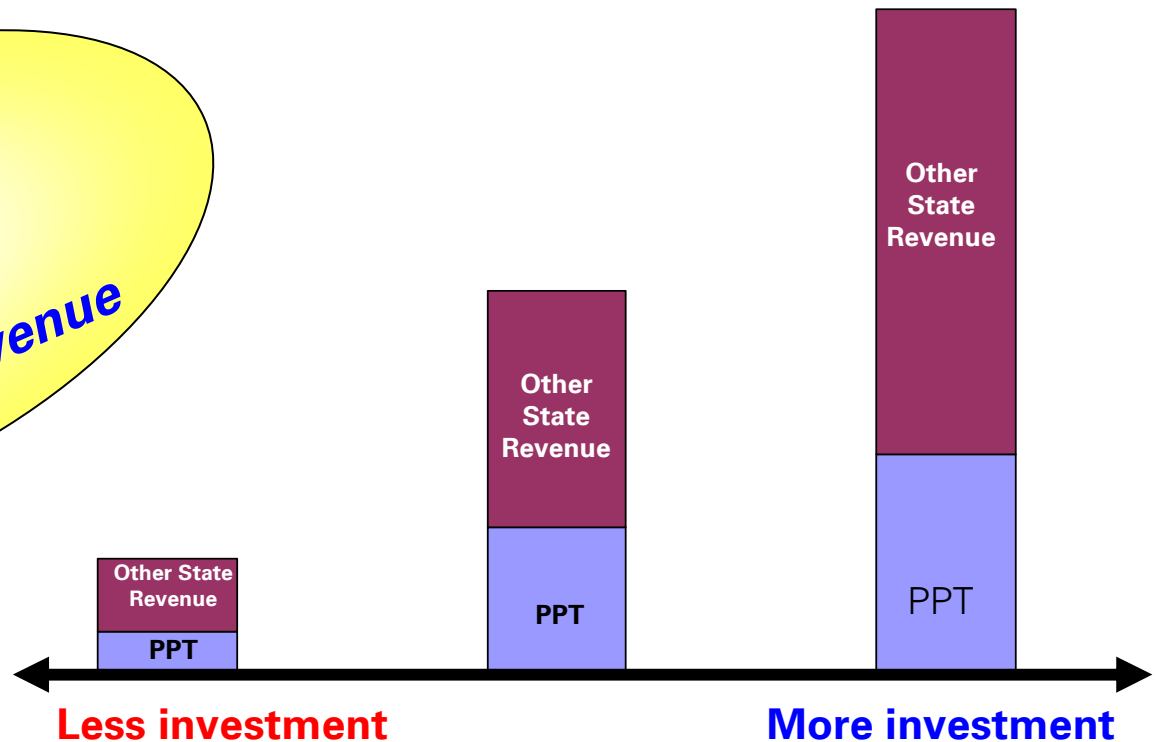
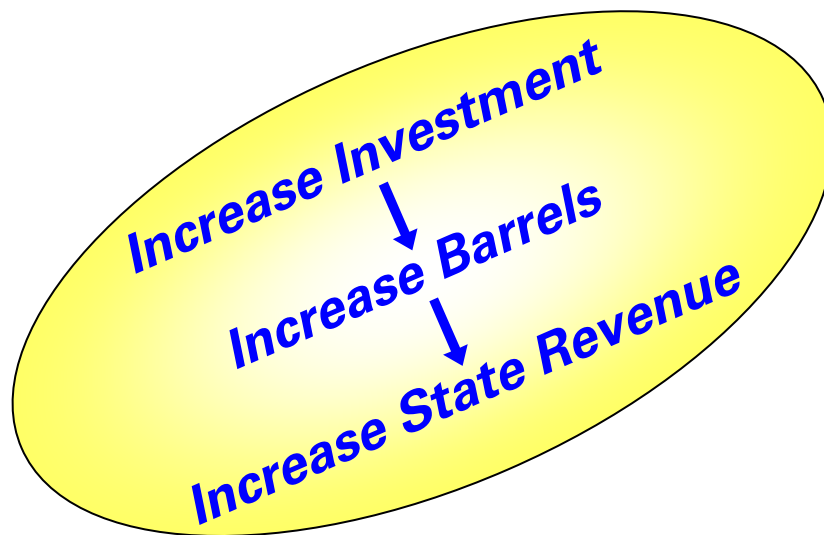
Production Drives Revenue



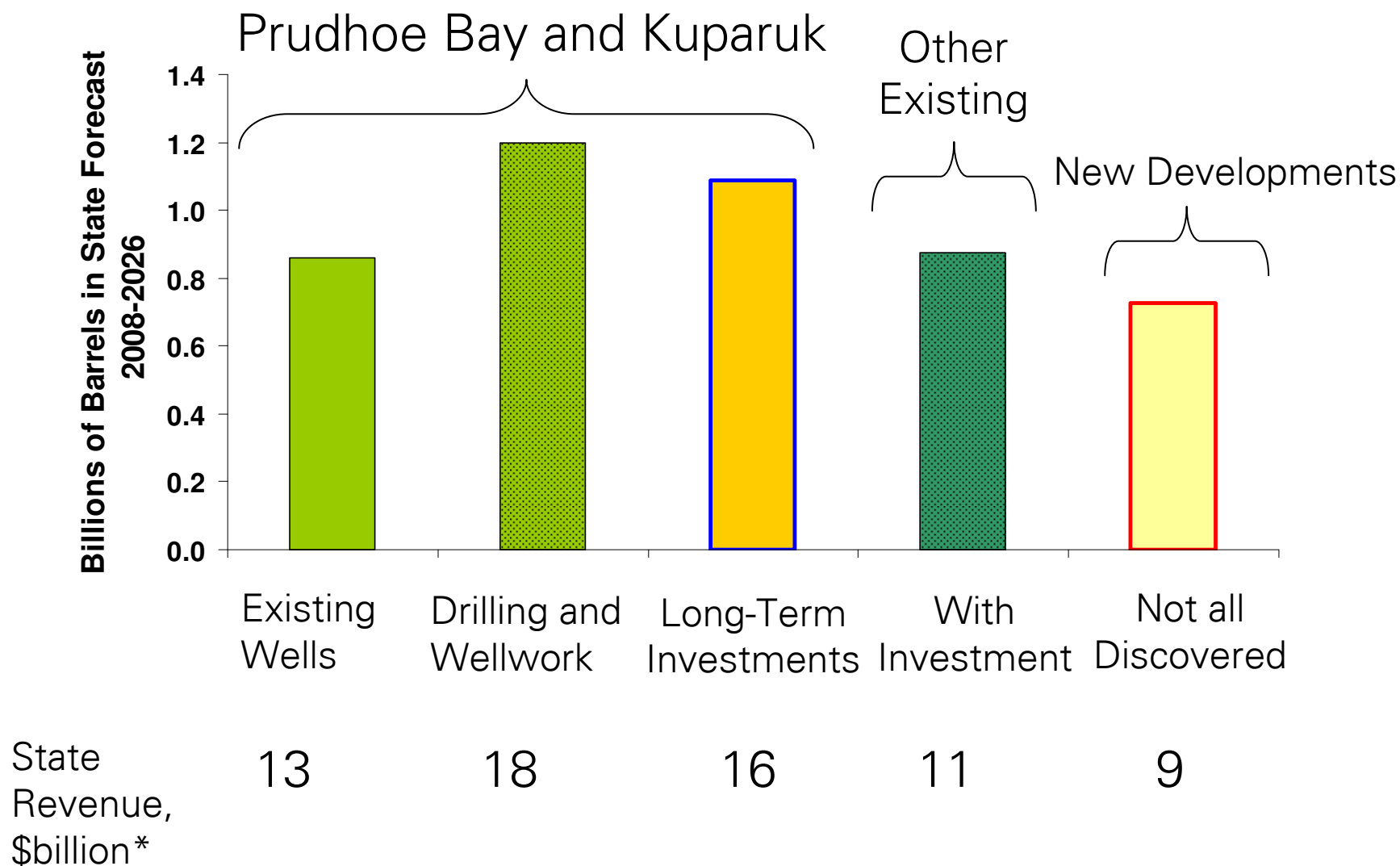
Decline Rate	15%	6%	3%
Produced Barrels	1.3 bn	3.9 bn	7.5 bn
Industry Investment	\$5 bn	\$25 bn	\$70 bn

(Estimate based on state presentations)

Status quo



Alaska needs a world scale level of ALL types of investment to sustain the future of oil production



*assuming PPT terms and state revenue of \$15/bbl at \$60/bbl ANS

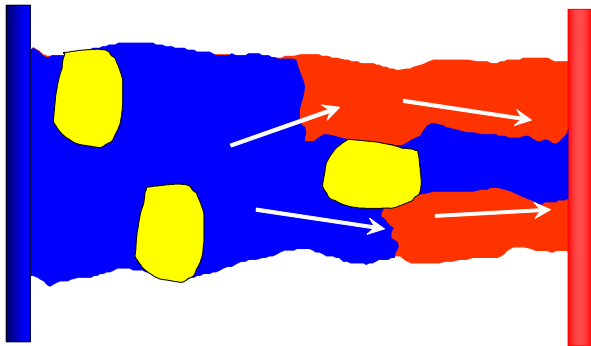
Developing and Deploying Technology



Bright Water

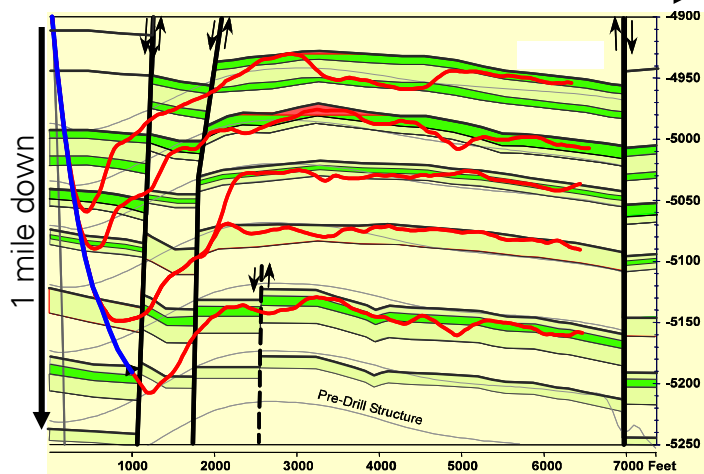
Water Injector

Oil Producer

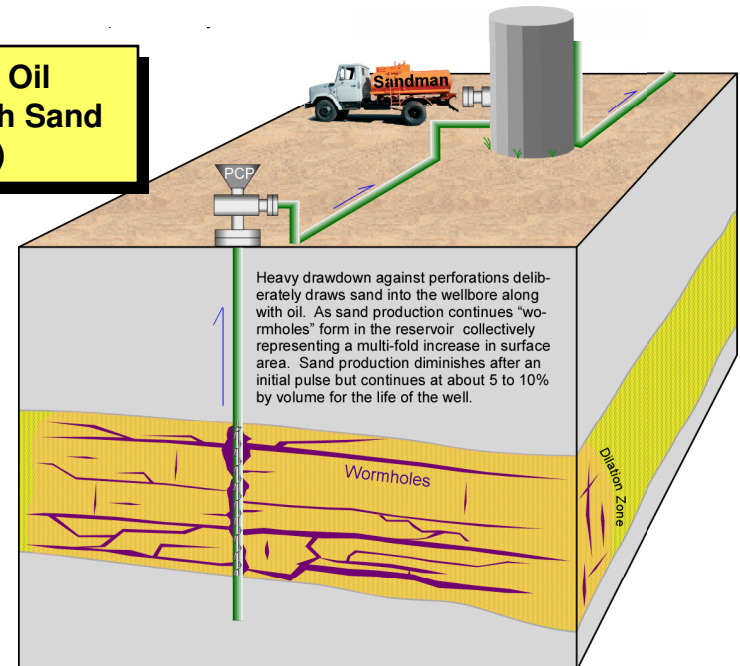


Multi-Lateral Well

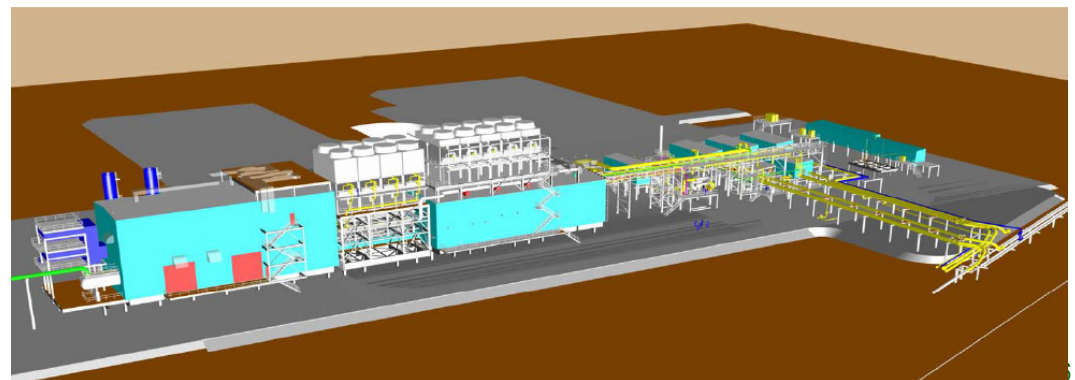
Drilling 1-1/2 mile over



Cold Heavy Oil Production with Sand (CHOPS)



Gas Partial Processing



Heavy Oil Challenges

Heavy oil will always be disadvantaged relative to light oil on the basis of development cost and commodity price



PROPERTIES

BUSINESS IMPACT

- Chemical
 - Hydrogen depleted relative to light oil

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- Retool refineries
- Take a lower price on market

=

Revenue

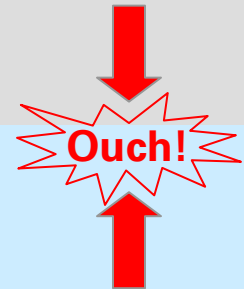
- Physical
 - High viscosity

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- High well density
- Add heat to reservoir & transit lines
- Add diluent to major pipelines
- Upgrading (partial refining)
- Environmental Mitigation (e.g. CO₂ sequestration)
- Water treatment
- Sand Disposal
- Wellwork

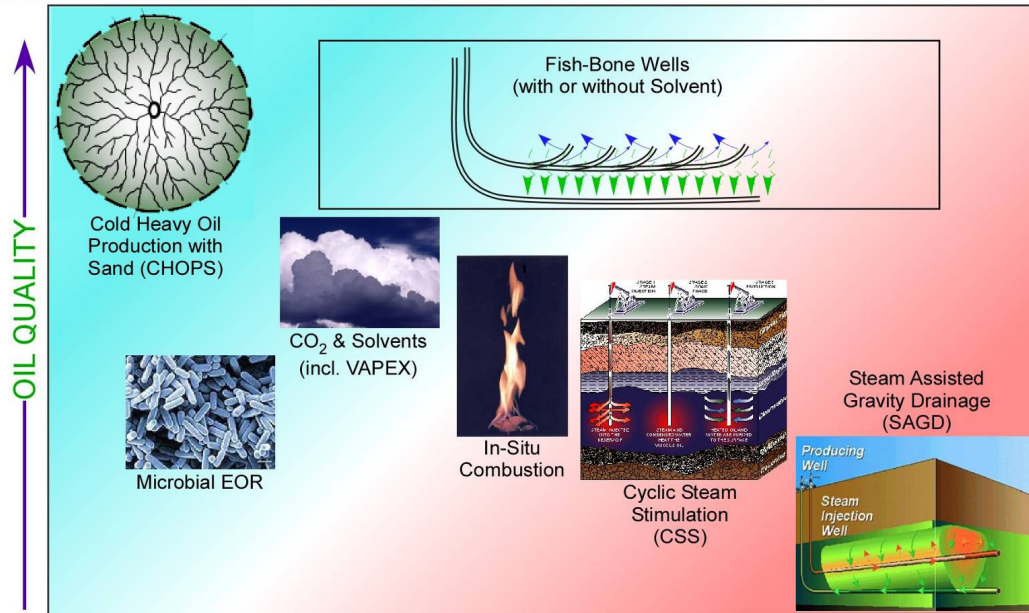
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Costs



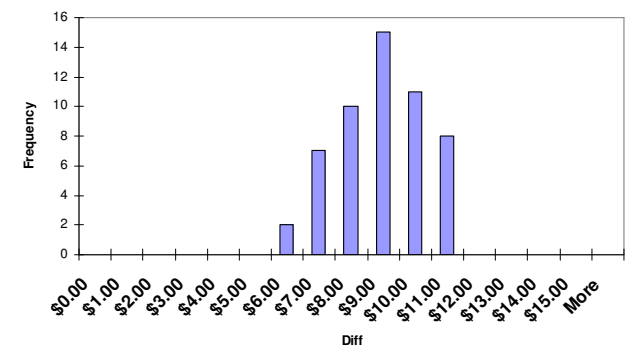
COLD –
PRIMARY

RESERVOIR QUALITY

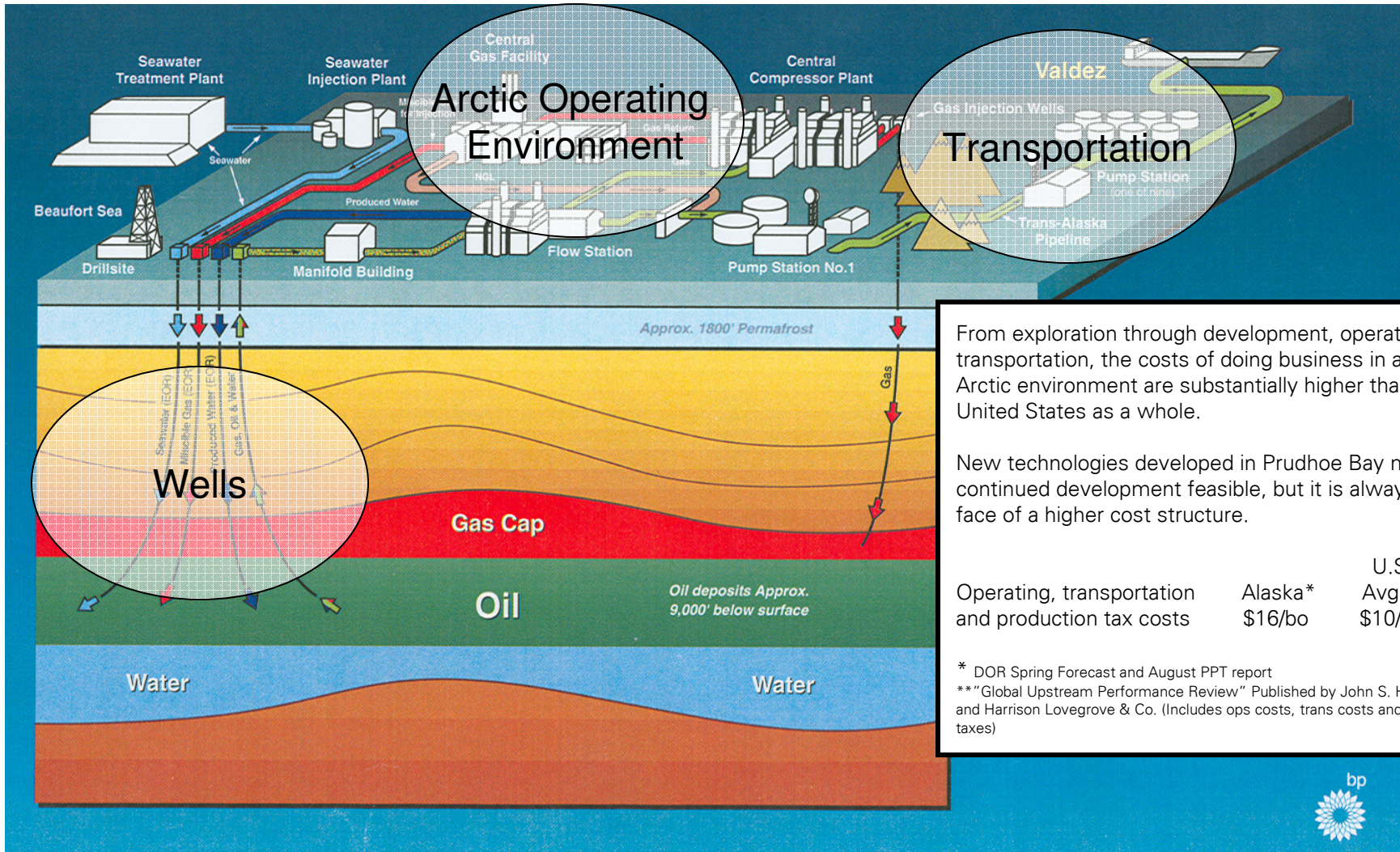


THERMAL
EOR

2007 Differential: ANS-Kern River



Alaska vs. Average U.S. Cost Structure



Sector inflation triggered by high oil prices is real and substantial – example measures



“The Upstream Capital Costs Index, developed by Cambridge Energy Research Associates (CERA), shows that costs for oil and gas production equipment, facilities, construction, materials and personnel have increased 53% since 2005.” (Source: PPT Implementation Status Report, August 2007)

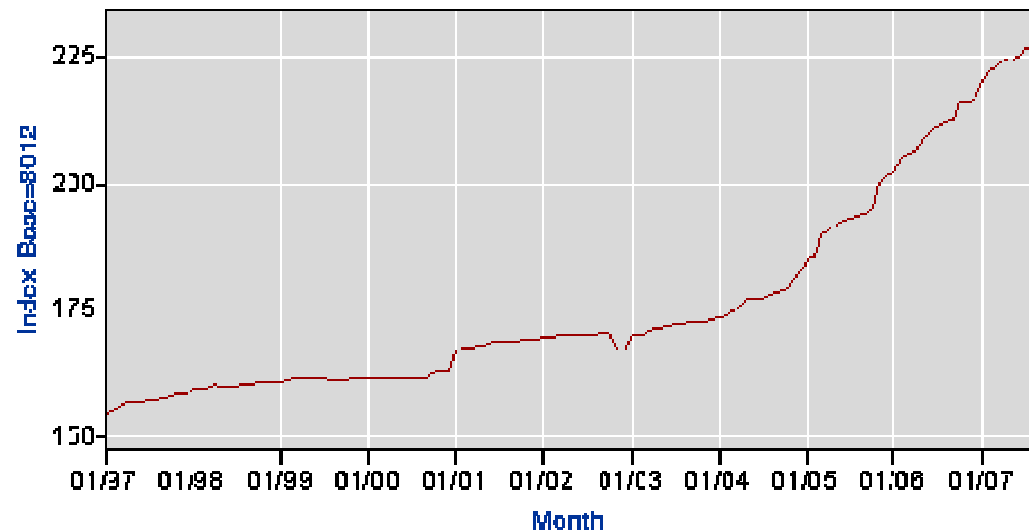
2004-2006 U.S. Average Cost Increases per barrel

- 153% on Finding and Development costs (Capital)
- 58% Lifting costs (Expense)

(Source: “Global Upstream Performance Review” published by: John S. Herold /Harrison Lovegrove)

Oil and Gas Field Machinery and Equipment PPI

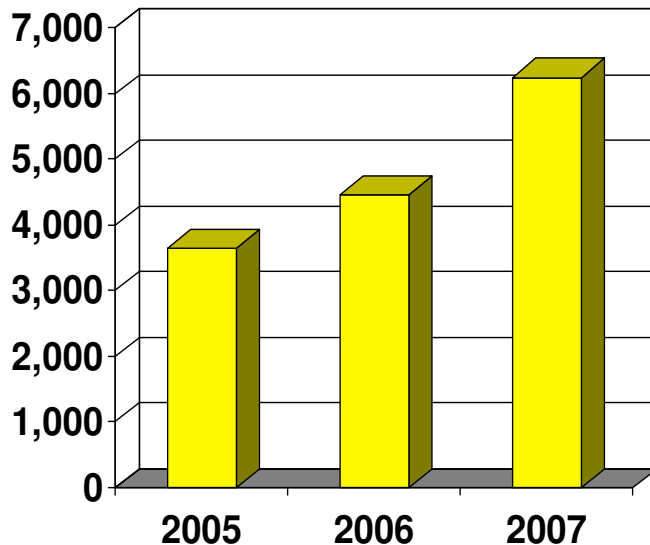
Source: U.S. Department of Labor



Investment activity is also causing a large part of the increase



■ North Slope Contractor Jobs



- Since late 2004, BPXA staff has grown from 1300 to approaching 2000 employees
- Active drilling rig count on contract for BP has gone from 9 in 2004 to 10 in 2007
- BP commissioned a new camp this summer and rented 4 more, increasing our camp capacity by 30%
- Seismic acquisition activity brought in additional 100+ contractors to the Slope for the winter season
- Pickup truck rentals in support of NS operations has gone up approximately 60%
- Preventative maintenance and inspection programs on the 30-year old infrastructure are at an all-time high

HB/SB 2001 Proposals



- Information Reporting
 - 30 years on one basis – should we be that surprised that both parties are working out how to make it work?
 - What information has been provided over the years
 - What information is needed to forecast
 - Audit rights enable full access to details on all expenditures
 - Business plans change: a forecast is **not a promise**
 - Statute of limitations
- Information Use
 - Sharing and confidentiality, public disclosure
 - Advisory bulletins

HB/SB 2001 Proposals



- Lease Expenditure
 - Start with JV billing
 - Definitions
- Exclusions
 - Unscheduled interruption
 - Definition and unintended consequences
 - Topping plant : Safety and Environmental impact of alternative
 - DR&R
- Credit Adjustments
 - TIE credits
 - 2 years – v - 1 year

Economic impact of proposed bill on new investments



- About 70% of future investment decisions are within Prudhoe Bay and Kuparuk.
- A significant number of investment opportunities in Prudhoe Bay and Kuparuk will cross into marginal or non-economic territory under minimum tax scenario, raising costs and lowering netbacks for the rest of the North slope production.
- Gross progressivity is not flexible for future changes. Net tax is self-adjusting to costs and revenues.

Key Messages



- Production, not tax rate, is the major factor in determining state revenue for the future years
- Delivering the production forecast will require tens of billions of investment
- Investment decisions are made on the basis of strategy, resources, technology, economics, and risk, including fiscal stability
- Original SB/HB2001 significantly deteriorates economics on 70% of investment options in the next 20 years
- Higher prices and developing technology could give the Alaska fields a new lease on life, but huge investments are needed
- The focus of the tax policy should be on encouraging large investments in existing fields as well as exploration
- The proposed bill creates **uncertainty** for taxpayers and potentially distorts business decision making

Backup Material



Data Provided to State Agencies



- Special Requests:
 - Sept 2006 – Joint Company Upstream Accounting Review with example documents
 - Nov. 2006
 - 2001-2005 PBU Partnership Tax Trial Balance
 - 2004-2005 PBU Partnership Returns & Amendments
 - 2004-2005 PBU Gross Billable General Ledger Balances and accounting detail.
 - PBU Operating Agreement and Accounting Procedures with approved and pending amendments
 - 2001 to Present - Joint Venture Audit Status Reports

2006 PPT Filing Information



- BP PPT Template
 - Excel workbook w/ calculations
 - Monthly Volumes and GVPP
 - Lease Expenditures by field categorized by capital or expense and further detailed by: exploration, development, production, lifting, etc.
 - Annual Surcharge report by field
 - Schedule A: Qualified Capital Expenditures for each field. Included AFE #, AFE description, Account coding and amounts.
 - TIE credits
 - Tax credit summary form
 - May 2007 – BP met with DOR and presented a review of the 2006 filing process and numbers. From Trial Balance to filing and discussion of excluded items.

2007 Monthly Filings with DOR



- Taxpayer worksheet in DOR format for loading into DOR database
- Disposition Report – Special data extract for State Economists use
- Supplemental/Financial Month workbook (Netback calculation)
 - Production by field, Prevailing value, sales, TAPS deliveries, Marine transportation costs by account and amount
- PPT Conservation Surcharge: volumes and amounts by field
- PPT credits applied
- PPT Expenses by field, account type, expense type, expense activity
- PPT Month – Base Tax Report – includes GVPP, lease expense, base tax calcs, base tax credits and base tax installments.
- PPT Month – Index, PPT Actual Volumes, Tax Payment summary
- Contracts, invoices and netback reports