CSHB 2001 Testimony
October 31, 2007

ConocoPhillips Alaska

Kevin Mitchell

Vice President, Finance & Administration

Jim Taylor

Vice President, Commercial Assets

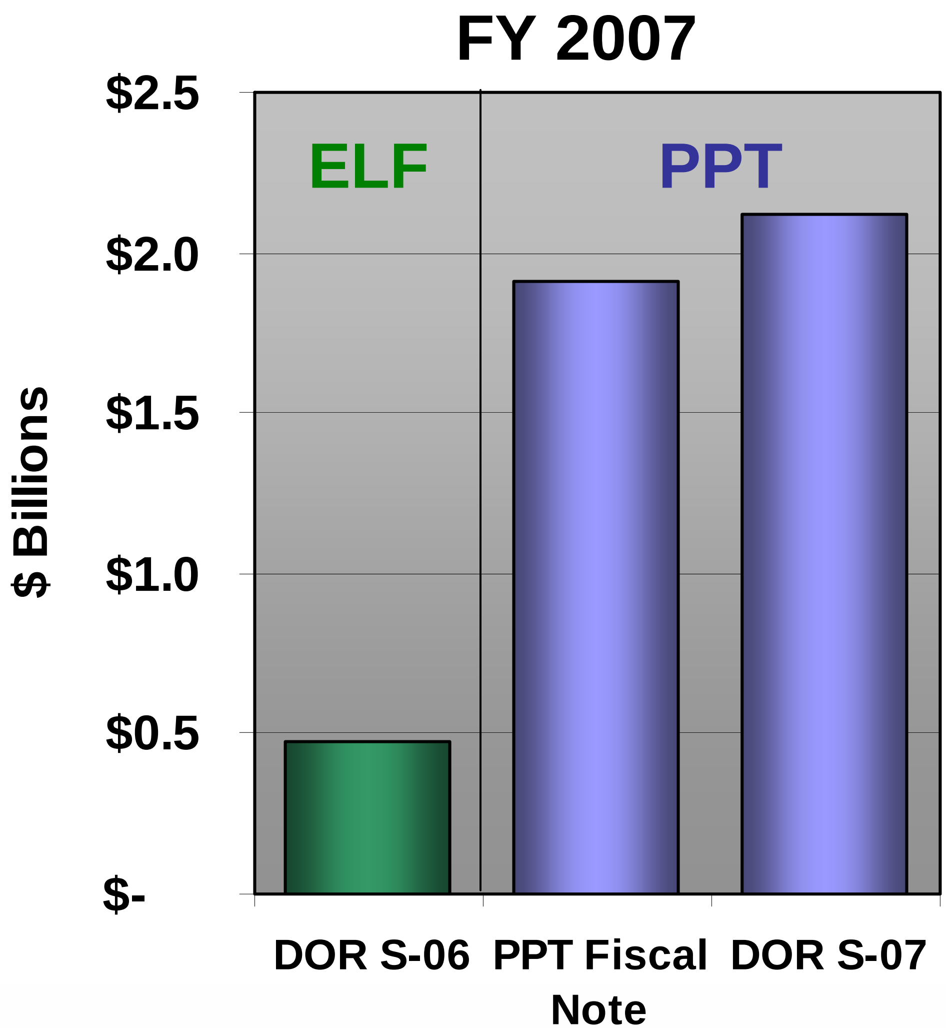
ConocoPhillips in Alaska Today

- **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
  - Uncertainty with frequent tax changes
- Administrative provisions need careful thought

Revenue Forecasts

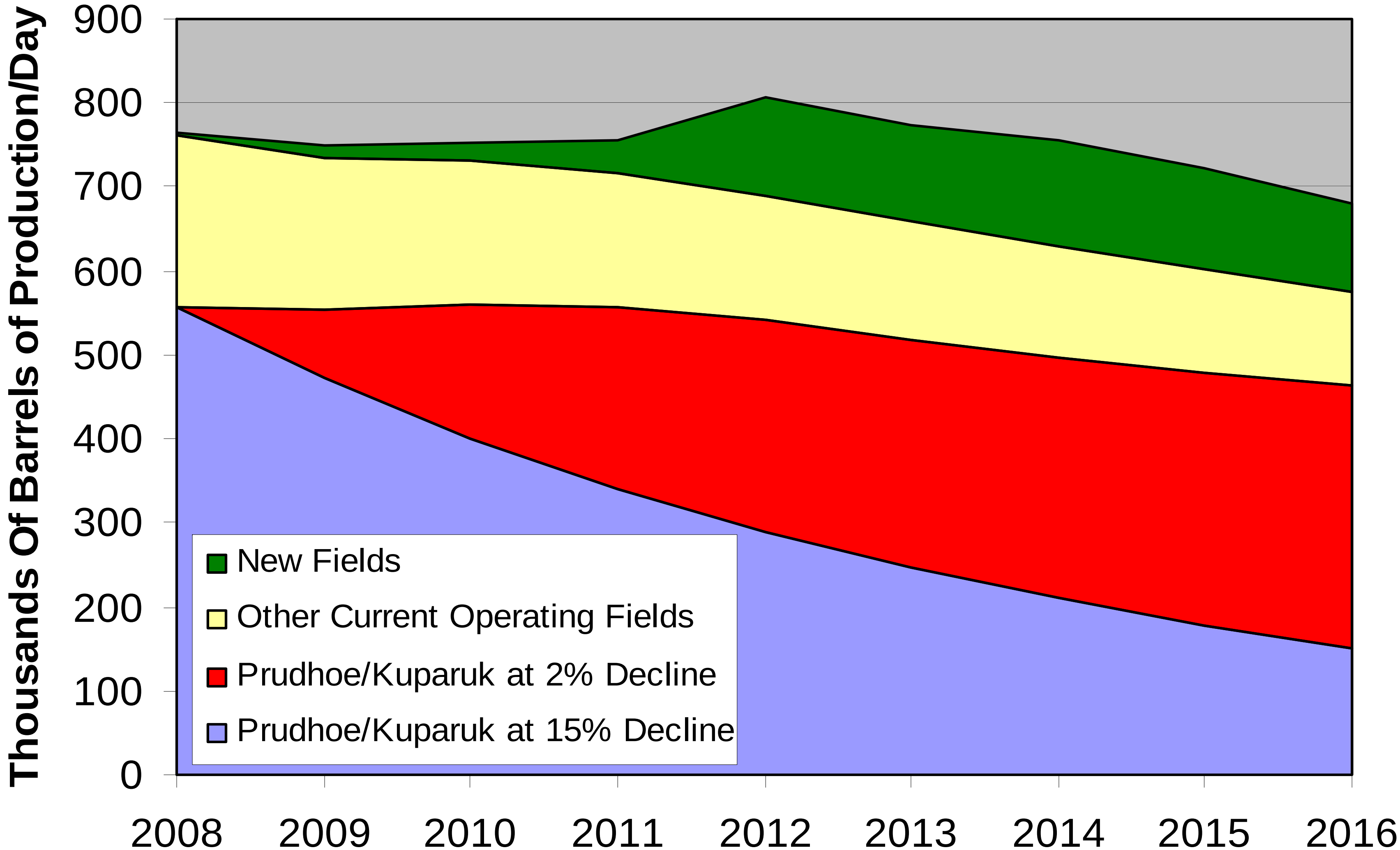


Revenues meeting targets despite forecasting uncertainty associated with:

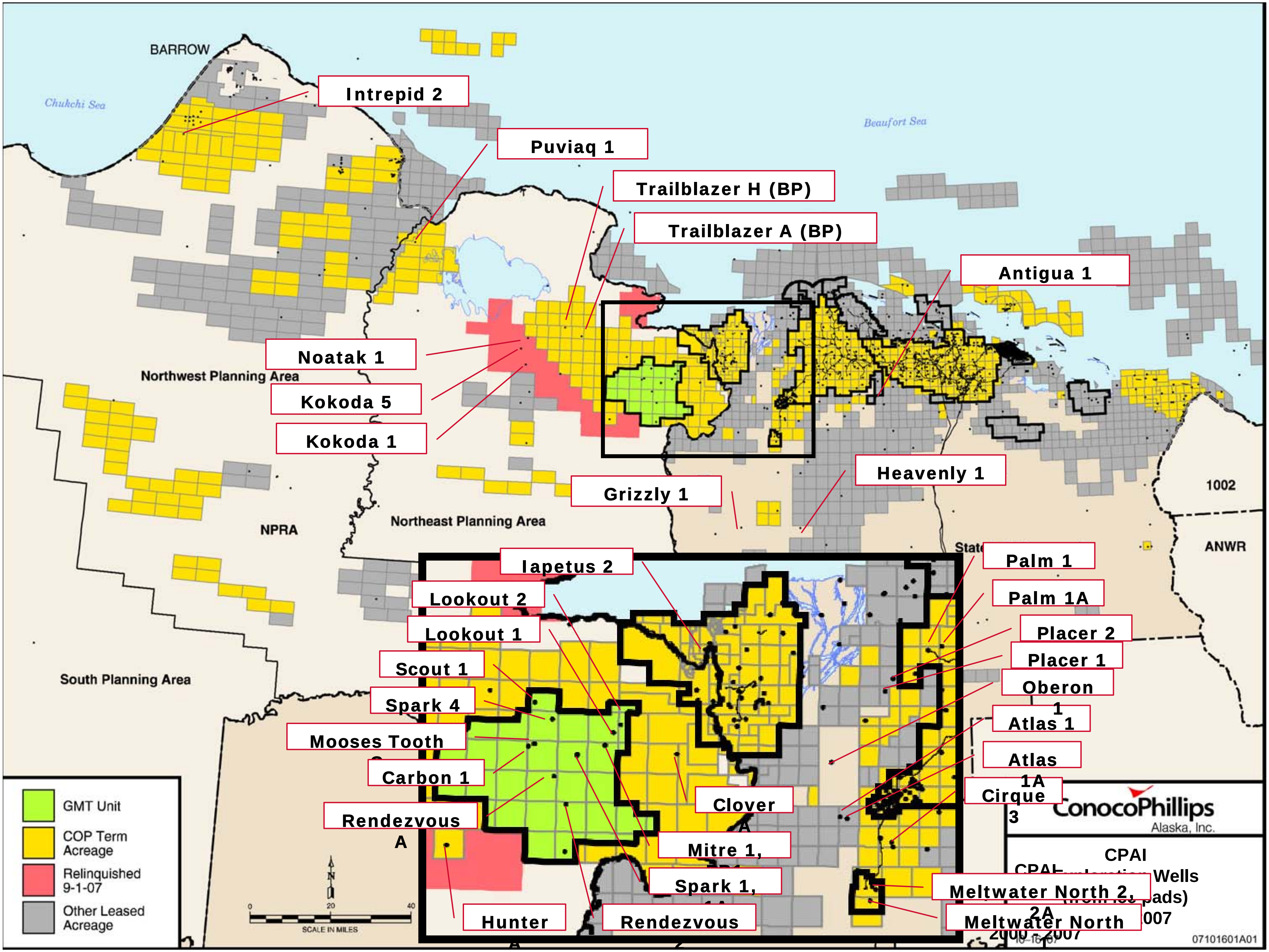
- Price
- Production
- Operating costs
- Capital costs

Too early to change

Significance of Future Investment



Deparment of Revenue 2007 Spring Forecast



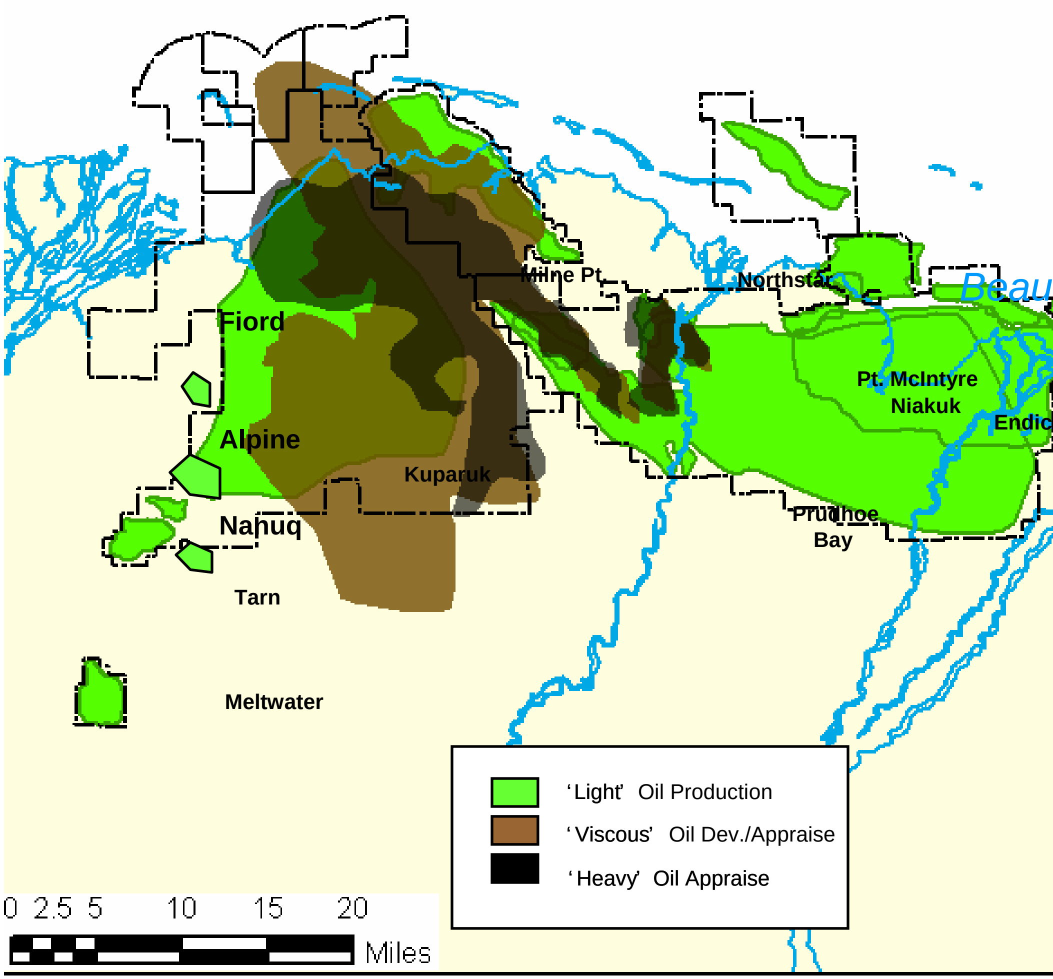
BARROW
Chukchi Sea
Beaufort Sea
Intrepid 2
Puviaq 1
Trailblazer H (BP)
Trailblazer A (BP)
Antigua 1
Noatak 1
Kokoda 5
Kokoda 1
Northwest Planning Area
Heavenly 1
Grizzly 1
1002
NPRA
Northeast Planning Area
ANWR
Iapetus 2
Palm 1
Lookout 2
Palm 1A
Lookout 1
Placer 2
Scout 1
Placer 1
South Planning Area
Oberon 1
Spark 4
Atlas 1
Mooses Tooth
Atlas 1A
Carbon 1
Cirque 3
Clover A
Rendezvous A
Mitre 1,
Spark 1,
Meltwater North 2, 2A
Hunter
Rendezvous
Meltwater North
GMT Unit
COP Term Acreage
Relinquished 9-1-07
Other Leased Acreage
0 20 40
SCALE IN MILES
ConocoPhillips
Alaska, Inc.
CPAI
Wells
pads)
2007
2006 - 2007
07101601A01

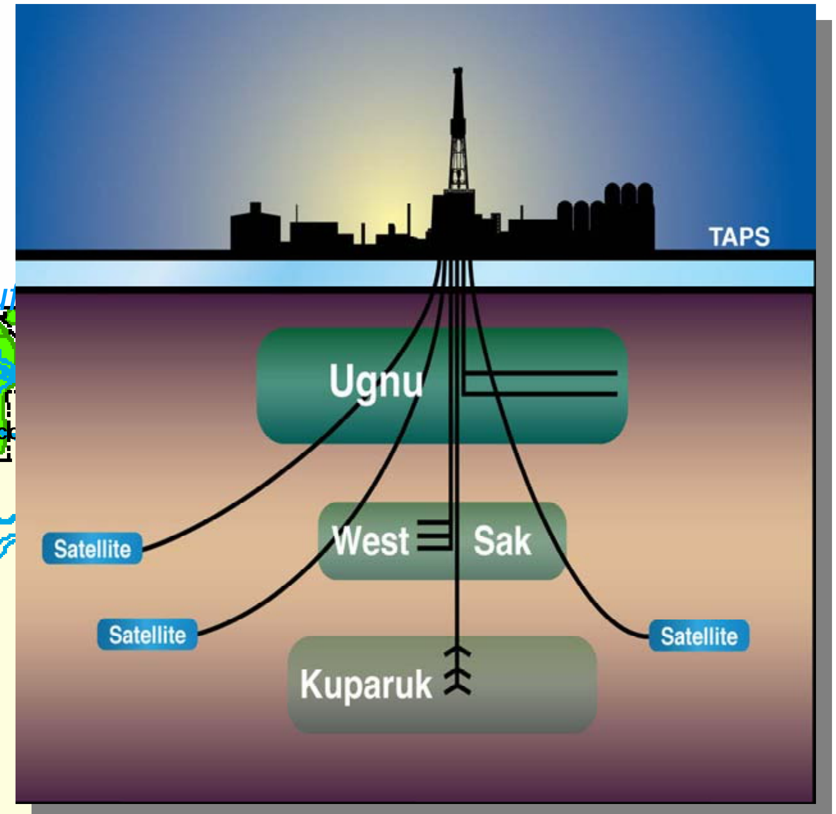
Alaska's Leading Explorer

Exploration Site – Winter
Typically January - April

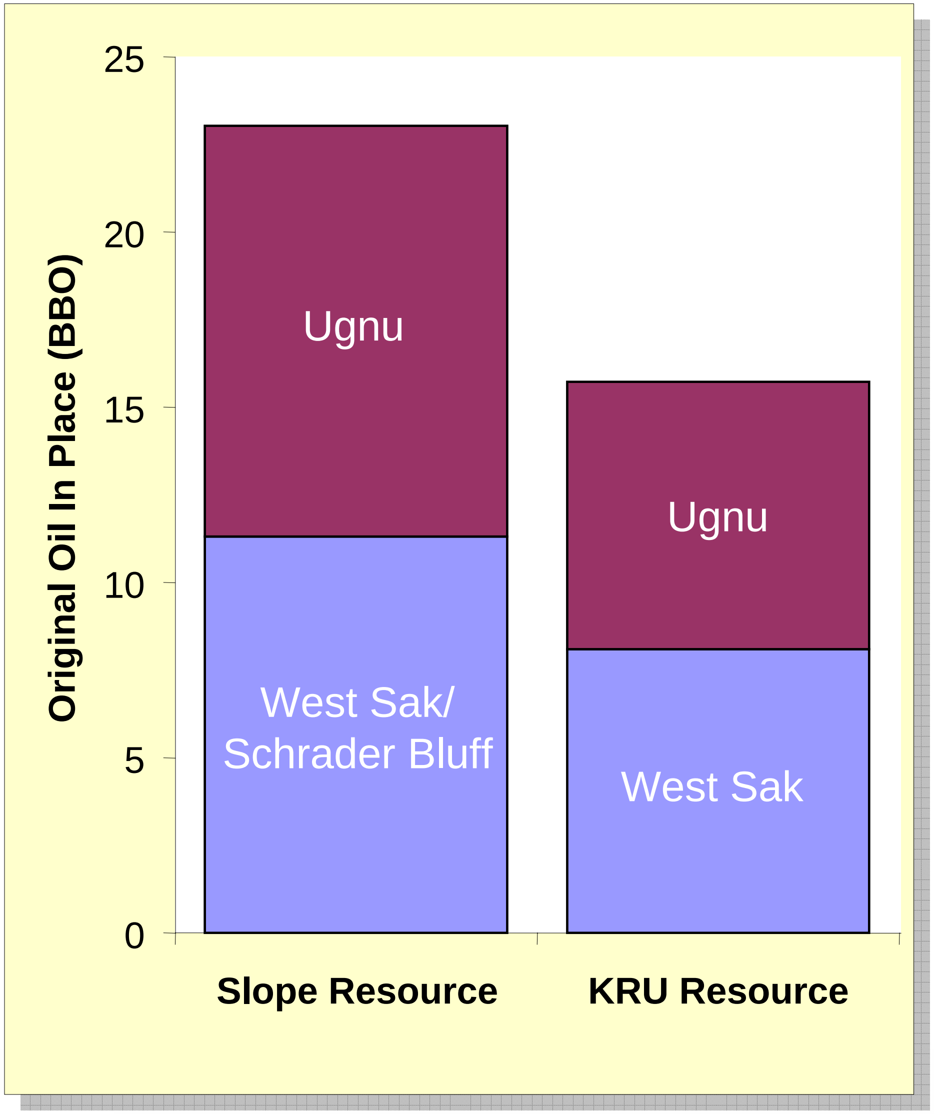
Exploration Site - Summer

North Slope Heavy Oil Fields





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

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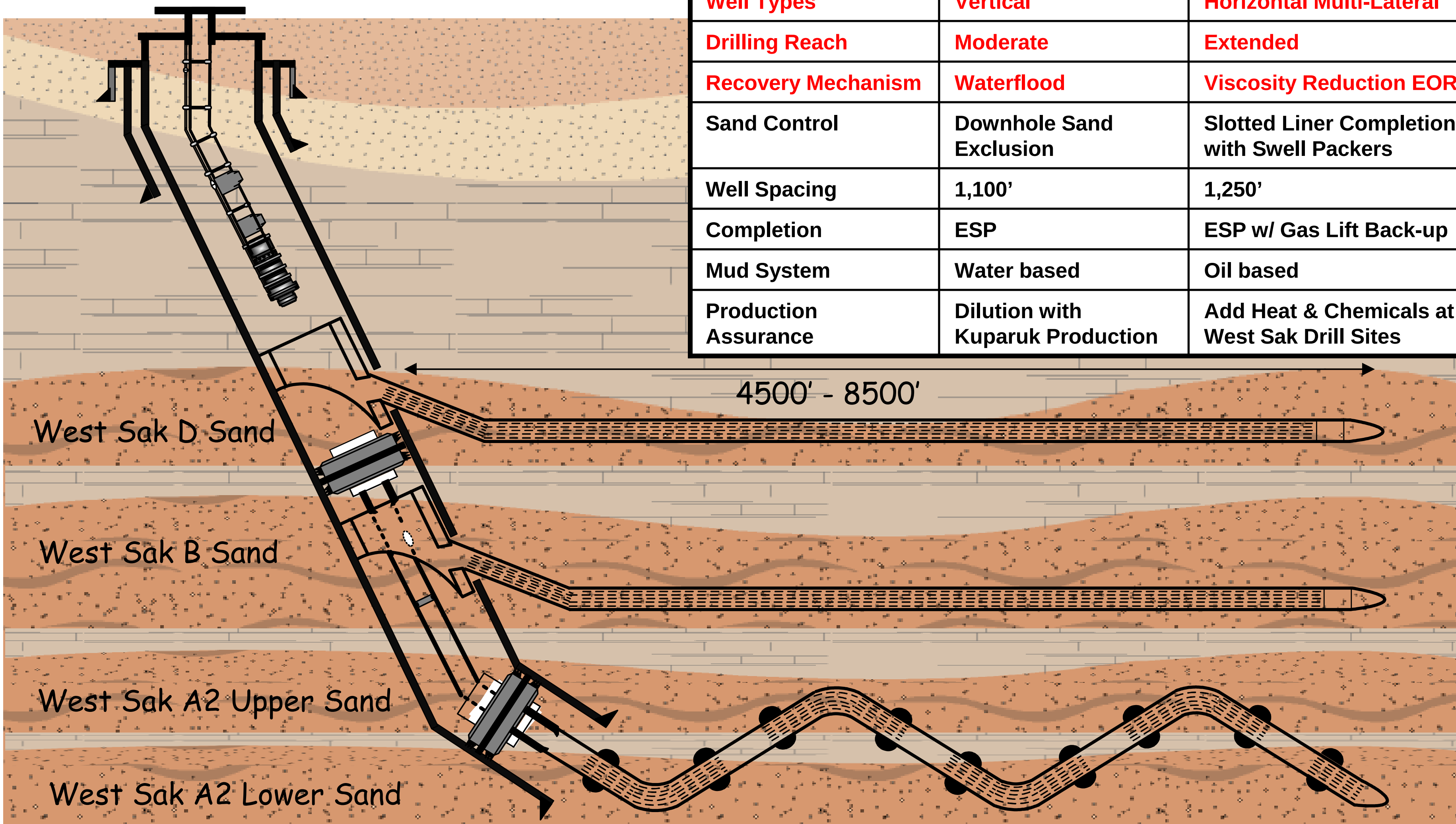
West Sak Tri-Lateral Producer

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



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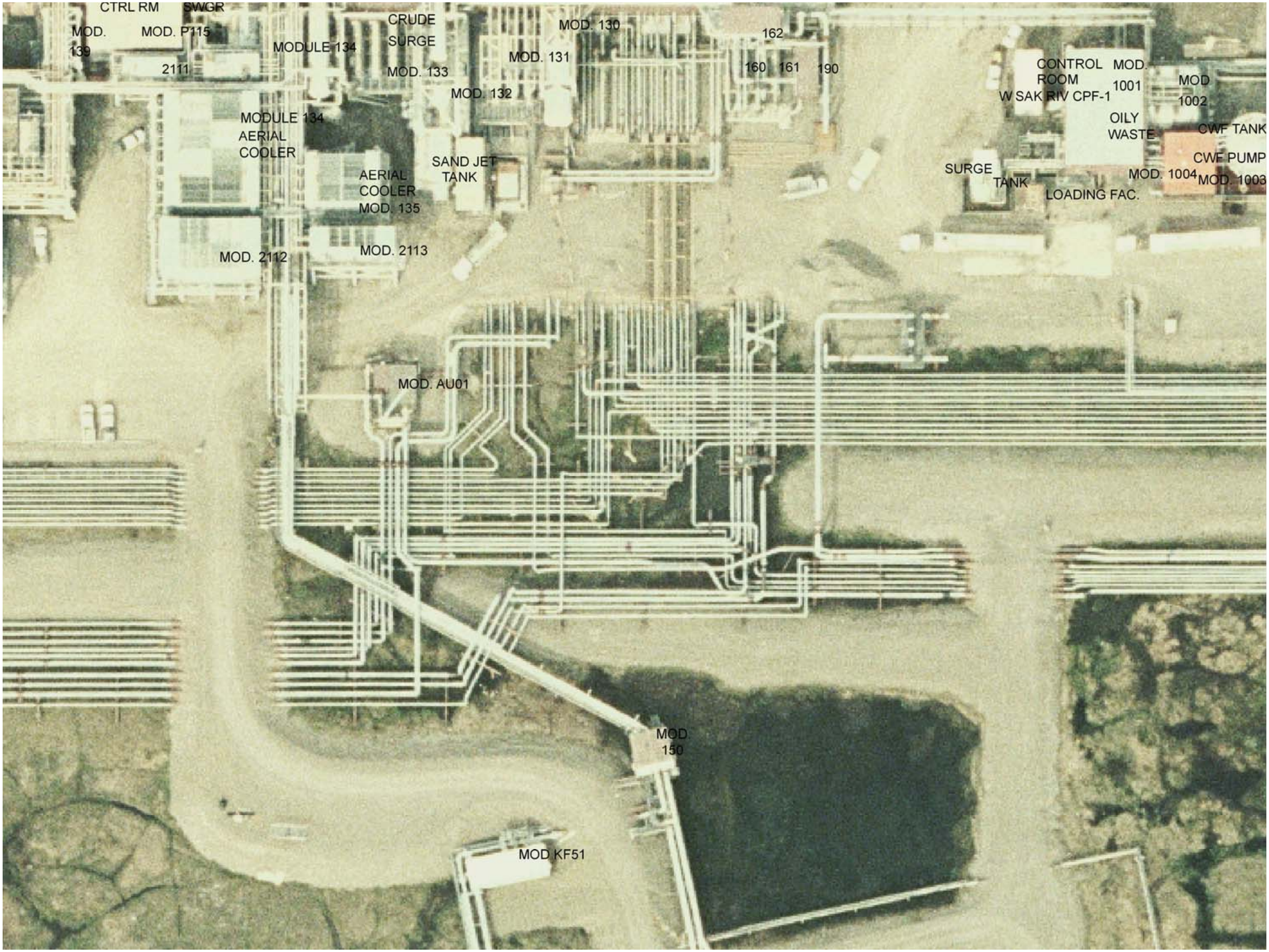

CTRL RM
SWGR
MOD. 139
MOD. P115
2111
MODULE 134
CRUDE SURGE
MOD. 133
MOD. 130
MOD. 131
MOD. 132
162
160
161
190
CONTROL ROOM
MOD. 1001
MOD 1002
W SAK RIV CPF-1
OILY WASTE
CWF TANK
CWF PUMP
MODULE 134 AERIAL COOLER
AERIAL COOLER MOD. 135
SAND JET TANK
SURGE TANK
LOADING FAC.
MOD. 1004
MOD. 1003
MOD. 2112
MOD. 2113
MOD. AU01
MOD. 150
MOD KF51

Project Analysis

	Finniza's Field A	Prudhoe/Kuparuk Projects 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	

Future investments are progressively more expensive to build and operate

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Committee Substitute

- Gross on top of a Net
- Transitional Investment Expenditure (TIE) Credits
- Exclusion of legitimate costs
- Administrative Issues

Progressivity

- When applied to Gross
  - Gross penalizes new projects at higher cost levels
  - Gross ignores impact of rising costs over time
  - Progressivity on gross could cause premature field shut in
  - Administration’s consultants have testified that the net application of progressivity is most desirable

Progressivity should be applied on a net basis

High Cost Projects' Economics Challenged under Gross Progressivity

Capital Cost = $10/BBL	Capital Cost = $30/BBL
Economic Project	Marginal To Uneconomic Project
40% of Tax Paid Comes From Gross Progressivity	100% of Tax Paid Comes From Gross Progressivity

Cases Run At $60 WTI Flat Real, Gross Progressivity of .225% per $1 above $50/BBL Gross Wellwhead Value

TIE Credits

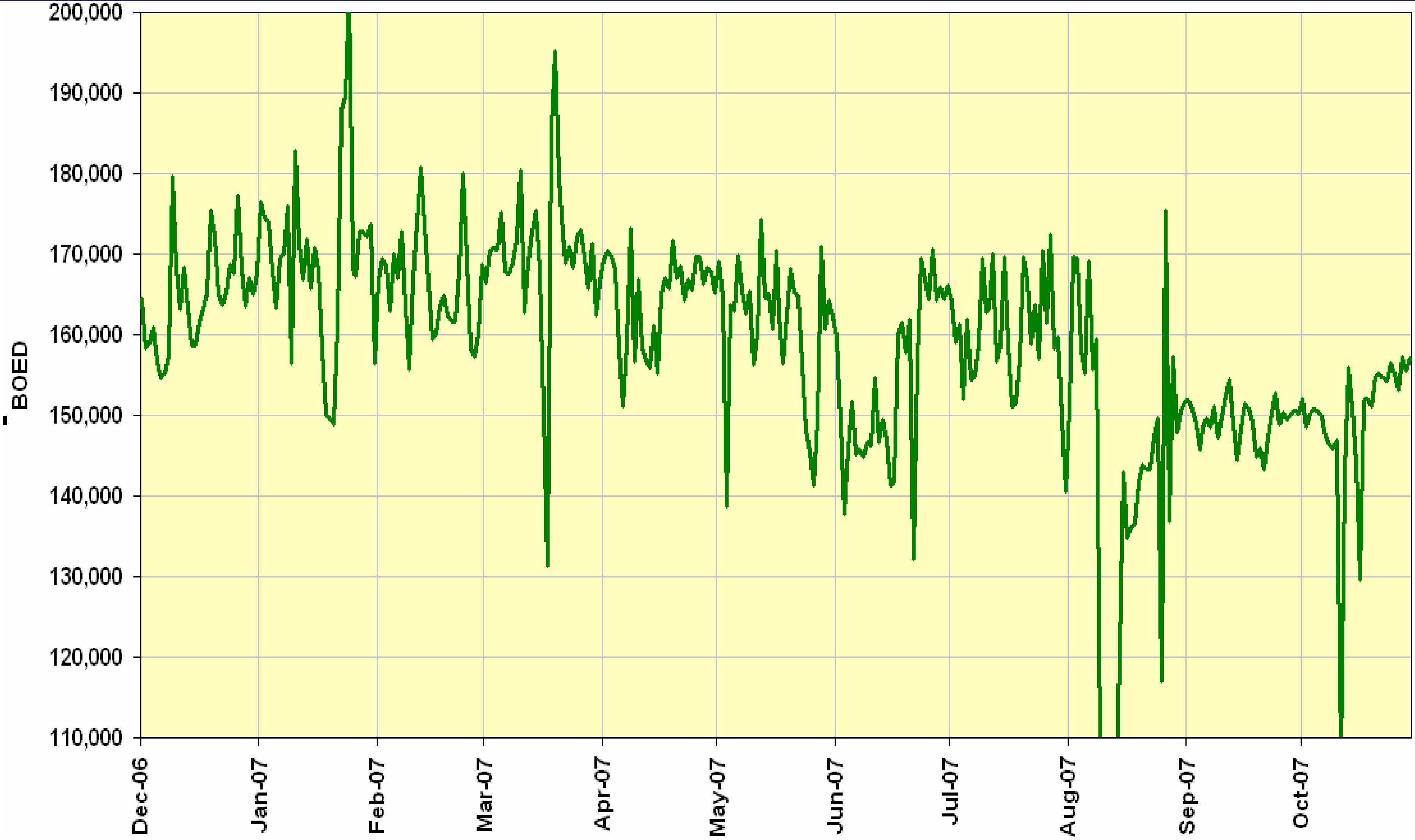
- An incentive to continue investment in Alaska
  - Producer has to spend twice the capital spent over the last five years to get the credit
- Use or Lose
  - PPT sunset clause erases all TIE credit remaining in 2013
- Soften the impact of tax changes

Exclusions and Deductions

- Topping plant exclusion
- Driver for unscheduled maintenance exclusion was a specific event
  - Impractical and difficult to administer
  - Increases potential for dispute and litigation
  - Possible unintended consequences

Exclusions and Deductions language needs careful and thorough consideration

Unplanned Maintenance



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“Other” Information

Section 27 (page 20) – **AS 43.55.030(f)** reads:

- “The department may require a producer, ….to file monthly reports, as applicable ..(8) other records and information the department considers necessary for administration of this chapter.”

Implications:

- This statement is too broad, and
- Reporting data should be specified
- Could be compelled to give data that compromises our competitive position

Statute of Limitations

Section 29 (Page 22) - **AS 43.55.075** reads:

- "…the amount of tax imposed by this chapter must be assessed within six years after the latest return was filed."

Implications:

- It's in the best interest of the state and the taxpayers to have audits completed in a timely manner
- Under proposed bill, first audit does not need to be completed before 2011 PPT review
- Amended returns due to decisions by regulatory agency, court, IRS or other body are compelled to be filed, however, the draft legislation ***reopens the entire return*** rather than just the items amended by these decisions

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