ACES

House Resources

CS HB 2001 (O&G)

November 1, 2007

Anadarko Petroleum Corporation

APC Operational Overview

Rockies
- Large acreage holdings

International
- World class targets
- Focused exploration

ANADARKO HQ
Houston, Texas

Gulf of Mexico Deepwater
- Significant Acreage position

Anadarko's Investment in Alaska-Land

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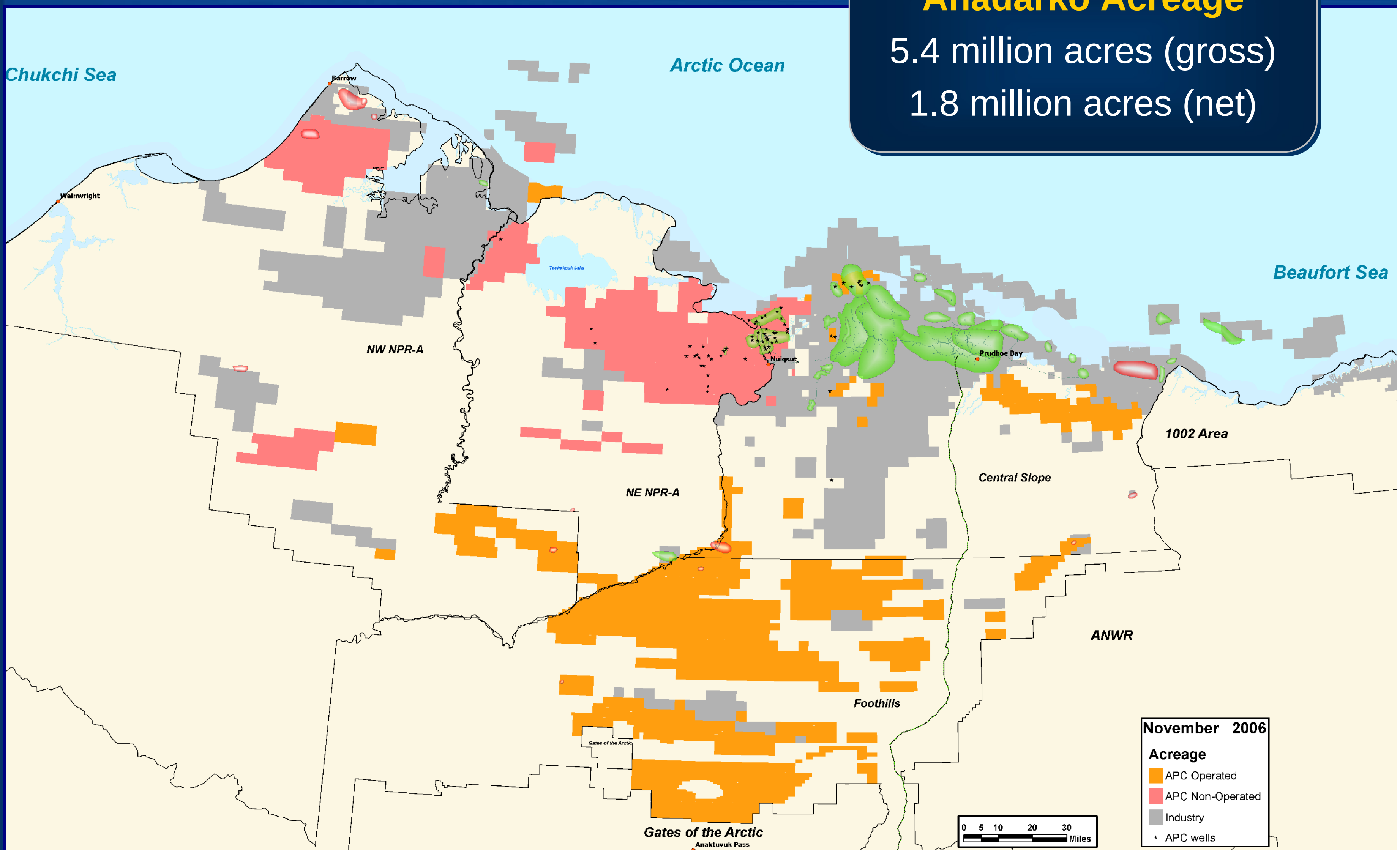
Anadarko Acreage

5.4 million acres (gross)

1.8 million acres (net)



Alaska Opportunities

- World class petroleum basin
- Significant remaining resource potential
- Legacy type prospectivity (i.e. Anchor Fields)
- New entrants/partnering opportunities
- APC possesses tangible competitive advantages

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Alaska Challenges

- Maturing basin/materiality/smaller prospects
- High costs
- Lack of infrastructure and competition
- Extremely long lead-time exploration
- Seasonal drilling & regulatory timing requirements
- Distance from market
- Lack of gas transportation

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Our View of PPT & Recap of 2006 Testimony

- **Significant tax increase at existing fields**
  - *– Can be offset by increased exploration & development investment*
- **Improvement in exploration economics versus elf system encourages new investment**
  - *– Credits help reduce high costs & improve NPV*
  - *– 25 – 20 worse than old elf system*
- **On balance supportive of PPT system**

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Support Net Profits Approach

- **Appreciate Administration work to evaluate gross vs. net and conclusion to stick with net**
- **Net considers varying economics & costs**
  - *Tax paid on net income after costs*
  - *Accounts for costs and levels playing field*
  - *Still doesn't account for risk*
- **Gross collects on income regardless of profit**
  - *Gross tax with proper incentives harder to develop equitably and still complicated to administer*
- **Royalty acts like a gross tax**

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Gross versus Net Taxes Example

	Field A		Field B		
Price per barrel $	60		60		
Cost per barrel $	10		20		
Net Income per barrel $	50		40		
15% Gross Tax ($60 X 15%)	9	+	9	=	$ 18 Total Taxes
Tax Rate on Net Income	18%		22.5%		
20% Net Tax	10	+	8	=	$ 18 Total Taxes
Tax Rate on Net Income	20%		20%		

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Our View of ACES- Negatives Outweigh Positives

- **Support some parts of ACES**
  - *Expand time to qualify for Exploration Incentive Credits (offset by new exclusions and requirements)*
  - *Modify Net Loss carry forward to create level playing field*
  - *Goal of increased transparency & state auditor capability*

- **Stability**
  - *Concern that PPT/ACES will be revisited again in next few years to deal with gas*
    - Gas definitely needs to be addressed, but will reopen everything again

- **The significant tax increases would decrease exploration & development economics and far outweigh any positives in the bill**
  - *Tax rate increase*
  - *Tax escalator changes increase costs*
  - *Transition Investment Expenditure Credits Elimination*
    - Fairness and Investment Impact

Administration Field Economics Estimates

Table below from Sept 4, 2007 Administration Presentation

Project Net Present Value of Cash Flows (10% Discount Rate)				
$40 Test Price ($ Millions)				
	Status Quo PPT	ACES Plan	16% Gross Tax *No Capital Credits*	19% Gross Tax *With Capital Credits*
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282
Production Tax Revenues FY2008 @ $60 oil price	*$1.3B*	*$2.0B*	*$2.1B*	*$2.0B*

- **Project Economics decrease by 33% to 54%**
- **What geologic & commercial risks were assigned?**
- **Where are dry holes & failed projects accounted for?**

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Comments on CS HB 2001 (O&G)

- Prefer progressive tax applied to net income
- Support maintaining Transition Investment Expenditure credits
- Support base tax rate in O & G version

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