House Resources Committee

HB247

Scott Jepsen, VP External Affairs
Paul Rusch, VP Finance
ConocoPhillips Alaska

February 29, 2016
• Look back since MAPA passed

• Economic Environment

• HB247 Assessment

• Observations
Activities Since Tax reform (MAPA) Passed

• **Added two rigs to the Kuparuk rig fleet**
  - Investment has decreased Kuparuk Unit decline

• **Two new-build rigs are on order – deliver 2016**

• **New Drill site at Kuparuk (DS 2S) – on stream October 12, 2015**
  - Estimated 8,000 BOPD peak production rate
  - About $500 million gross cost to develop
  - 250+ construction jobs

• **Viscous oil expansion in Kuparuk (1H NEWS)**
  - About 8,000 BOPD gross, 100+ construction jobs
  - About $450 million gross cost to develop
  - Under construction – first oil 2017

• **New development in NPRA (GMT1)**
  - Final investment decision made late 2015
  - About $900 million gross cost to develop; peak gross rate ~30,000 BOPD
  - About 600-700 construction jobs
  - First oil 2018

• **Permitting underway for GMT2**
  - $1+ billion gross investment
  - Will create 600-700 jobs

• **Active Exploration Program**
  - 2 wells drilled in 2014
  - Acquired GMT1 Seismic – 2015
  - Three wells planned for 2016 (NPRA)
Capital Spending Trends

**ConocoPhillips Capital Spend ($B)**

- 2012: $14.2
- 2013: $15.5
- 2014: $17.1
- 2015: $10.1
- 2016E: $6.4

**ConocoPhillips Alaska Capital Spend ($B)**

- 2012: $0.8
- 2013: $1.1
- 2014: $1.6
- 2015: $1.4
- 2016E: $1.0

**ANS WC Oil Prices ($/bbl)**

- January 2012: $14.2
- January 2013: $15.5
- January 2014: $17.1
- January 2015: $10.1
- January 2016E: $6.4

**Alaska Capex as % of COP Total (%)**

- 2012: 6%
- 2013: 7%
- 2014: 9%
- 2015: 13%
- 2016E: 16%

**Total Company capital reduced 63% since 2014**

**2016E Alaska capex ~ 25% higher than ACES years (~$0.8 B/yr 2007-2012)**

Sources: ConocoPhillips 10Ks and Alaska DOR website
Alaska Producers Negative at Current Pricing

2017 FY Cash Flow - 2015 Fall RSB assumptions

State share shown excludes tax credits other than production tax credits.
Key Concerns with HB 247

- Increase in minimum tax from 4% to 5%
  - 25% tax increase when industry in negative cash flow position
  - ConocoPhillips in excess of $100 MM cash flow negative in 2015
- Hard minimum tax floor
  - Represents a potential tax increase when oil prices are low – moving in the wrong direction
- Various changes resulting in a tax increase
  - Increase in interest rate for under/over paid taxes
  - Monthly accounting for production tax credits vs current yearly approach
  - NOL calculations
Key Concerns with HB 247

• Increase interest rate on taxes due
  • Applies a punitive interest rate when payments are made in good faith and on-time
  • Current tax system leads to uncertainty on final tax amount due until audits have been completed
  • Pace of completing audits and appeals (6+ years) leads to excessive interest charges
• Restricting use of per barrel credits to the month earned moves towards a monthly tax - intent was full year basis

• Other Changes
  • Limiting deductions for calculating NOLs
  • Confidentiality
Observations

• Significant changes in tax law would validate concerns regarding State’s ability to implement a stable oil and gas fiscal policy
  • Only 18 months since SB21 ratified by voters
  • Long-term investment requires durable, reasonable fiscal framework

• Increased tax burden will adversely impact ConocoPhillips current year and future investments

• HB-247 sends a negative message to investors