House Resources Committee

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

February 24, 2017
HB 111 – Significant Change in the Cost of Business

• Minimum tax rate increase (4% to 5%) is a 25% tax increase

• Per barrel tax credit reduction
  • Fundamentally changes tax rates
  • Tax doubles at certain prices

• Interest change punitive – State largely controls the pace of audits

• “Migrating” tax credit change
  • Creates a monthly tax
  • Inconsistent with an annual tax

Increasing taxes makes Alaska less competitive
Increase in FY 2018 Production Taxes – HB111

% Increase in Tax - HB111

ANS West Coast ($/bbl)

Fall 2016 RSB Data
Unconventional: Top-Tier Resource Base and Growing

- Flexible, short-cycle investments with low execution risk
- High-margin production drives cash flow growth
- Prudent development pace maximizes value

~7 BBOE RESOURCE
~$35/BBL AVERAGE COST OF SUPPLY

1 Source is ConocoPhillips 2016 Analyst & Investor Meeting (November 10, 2016)
“Migrating” Per Barrel Tax Credits

• Production tax is imposed annually

• Estimated payments are made monthly, an annual tax return is filed in March

• Proposed change for tax credits moves toward a monthly tax
  • Increases the complexity of an already complex tax
  • Creates an imbalance in an annual tax system – all other components are calculated on an annual basis

• No such thing as “migrating” credits – the tax system was meant to be on an annual basis
Production Tax Audit Timeline

- Tax Year
- Audit – ACES regulations not finalized until 2010
- Informal Appeal
  - 60 days to file from Notice & Demand
  - Appeals Officer assigned (w/in Dept.)
- Informal Decision
  - No deadline for decision
  - Decision is issued
- Formal Appeal
  - 30 days to file appeal
- Hearing
  - Office of Administrative Hearings
  - Assigns Administration Law Judge
  - No deadline for decision
  - Decision is issued

The pace of this timeline is largely determined by the State
• HB111 represents a significant increase in the base tax structure in an already high cost environment—moves Alaska in the wrong direction.

• The changes to use of per barrel credits and interest are not supported—simply a tax increase.

• Hardening the floor—another tax increase.

• SB21 is working—it has stimulated investment resulting in jobs, production, and increased State revenue—let it continue to work.