House Resources Committee

HB247

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Agenda

- Look back since MAPA passed
- Economic Environment
- HB247 Assessment
- Observations

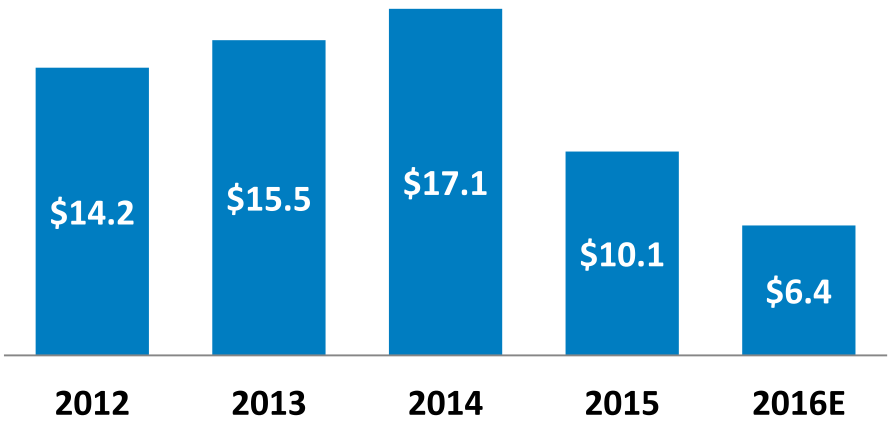
Activities Since Tax reform (MAPA) Passed

- **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)

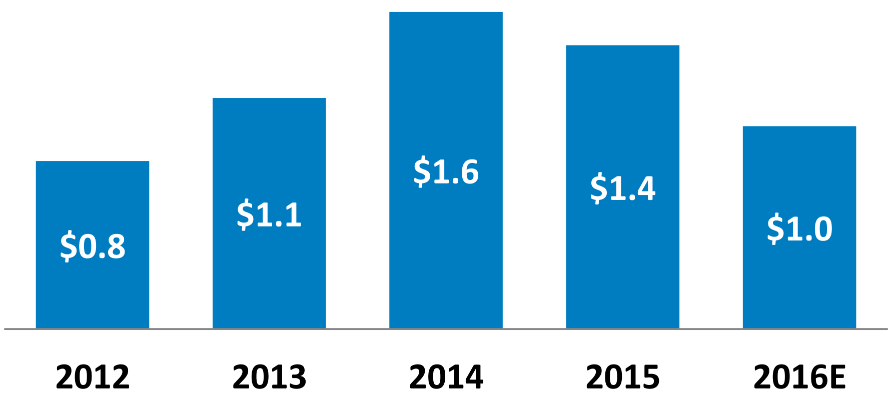
Capital Spending Trends

ConocoPhillips Capital Spend ($B)



Total Company capital reduced 63% since 2014

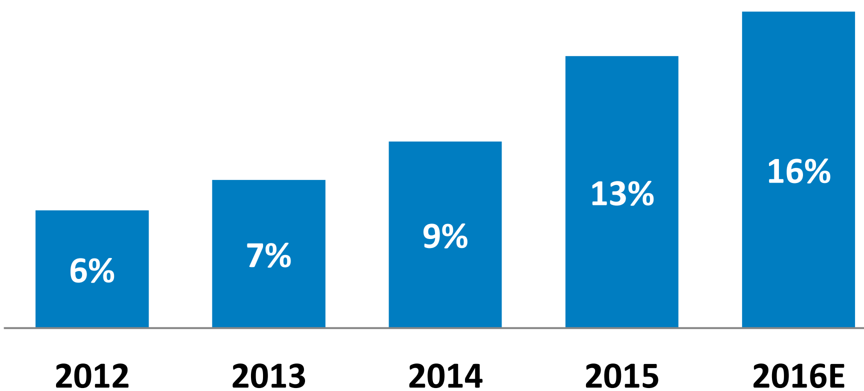
ConocoPhillips Alaska Capital Spend ($B)



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

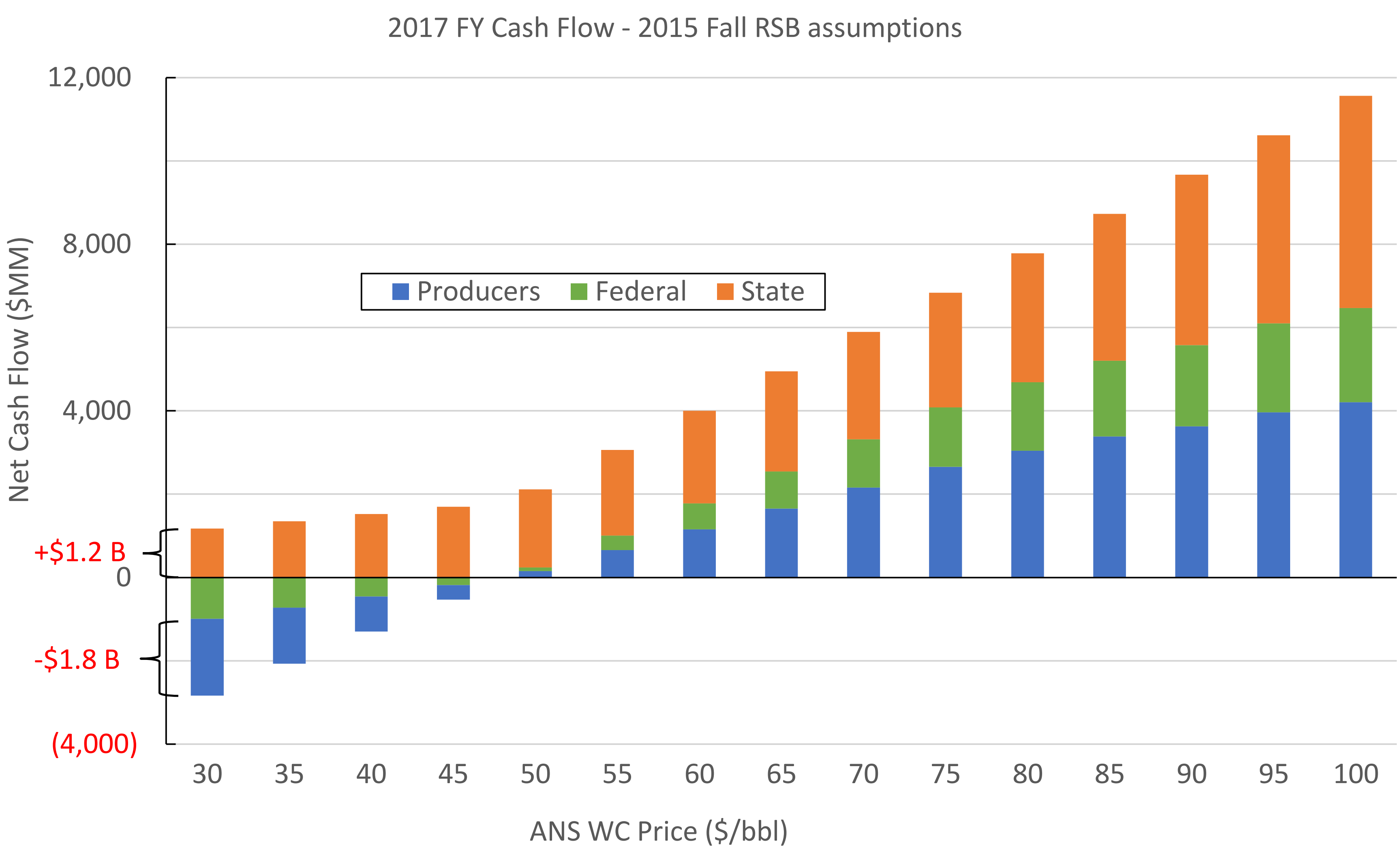
ANS WC Oil Prices ($/bbl)

Alaska Capex as % of COP Total (%)



Sources: ConocoPhillips 10Ks and Alaska DOR website

Alaska Producers Negative at Current Pricing



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