

Testimony to House Resources

May 8, 2020

Co-Chair Tarr, Co-Chair Lincoln, members of the committee:

For the record, my name is Scott Jepsen. I am Vice-President of External Affairs and Transportation for ConocoPhillips Alaska. Joining me is Erik Keskula, Vice President of Operations for ConocoPhillips Alaska.

This afternoon, we will provide some additional context around ConocoPhillips' response to the COVID-19 pandemic as well as an overview of the Company's decision to curtail North Slope production.

When the COVID -19 outbreak started to look like it could impact Alaska and our North Slope operations, we quickly started to take action to protect the wellbeing of our workforce and their families; help mitigate the spread of the disease; and safely run our business. One of our first actions was to implement health screenings on March 2 at Ted Stevens International Airport for all our north bound passengers traveling on the company planes. On March 9, the screening process was expanded to include temperature checks. Anyone who did not pass the health screening was not allowed to go north.

As the seriousness of the COVID outbreak became more apparent, we became concerned about our limited capacity on the North Slope to respond to multiple COVID cases. We made several decisions on March 18 to address this concern. First, we put in place a policy that required all personnel traveling to the North Slope to have been in-state for at least two weeks and pass the health screening, before traveling to the North Slope. For those who had traveled out of state during their time off, they were required to undergo a two week quarantine before they could travel north. In order to accommodate this, we changed shift schedules so that those who had a need to travel out of state would have time to travel and then spend their two week quarantine period on their days off. For example, this meant for some people, their schedule went from two weeks on/two weeks off to four weeks on/four weeks off. Second, we decided that the most effective pro-active measure we could take was to scale back our North Slope operations to reduce the number of personnel that could be exposed to the disease. We prioritized scaling back operations that were out on ice roads and farthest from infrastructure. Consequently, we made the difficult decision on March 18 to end our 2020 exploration drilling program early, bring to closure any ice season dependent non-essential activity, and bring personnel back to Anchorage that were not critical to ongoing operations.

On April 7, we elected to further reduce our North Slope personnel by laying down our rigs at Kuparuk and Alpine. The timing of this decision was driven by our COVID -19 strategy of removing personnel from the North Slope, but oil price also played a role. It is likely that we would have made the same decision a few weeks later as the scale of the historic drop in oil price became more apparent.

At our peak this last winter, we had approximately 3000 workers on site. Today, we have about 1100. Unless we see a COVID outbreak on the Slope, we will likely remain at this level until we begin to ramp up our operations again. I will talk more about that in a moment.

In Anchorage, our response to the COVID threat has been to ask employees to work from home. We made that decision on March 16. Of our approximately 600 town-based employees, only a handful are still working from the office. The staff working in the office are following all the recommended social distancing protocols. Through all of this, we have been following the state mandates issued by the Governor.

We are now in the process of determining when and how we will bring people back to our office and the North Slope. Our plan for the Anchorage office is to bring people back in three stages with diminishing social distancing protocols at each stage. In order to provide the ability to follow strict social distancing requirements for the first phase, we intend to bring back no more than 25% of the workforce on May 18th. In Phase 2, we will bring back up to 50% and in Phase 3, all employees. The dates for implementing Phase 2 and 3 have not been set. In making the decision about which employees return to work, we will be flexible and consider the lack of childcare facilities, employees who may be at high risk or who live with family members who are at high risk and other factors which are unique to today's environment.

On the Slope, our resumption of activity will not be as straightforward. The historic demand destruction caused by society's response to the COVID-19 threat, coupled with a global over supply of oil, is an extraordinary confluence of factors that has caused the price of oil to drop to very low levels. Alaska has not been exempted from the price drop. As posted on the DOR's website, the average price of ANS in April was \$16.55/bbl before transportation costs. Subtracting transportation yields an average April ANS North Slope price of around \$8/bbl. In response to unacceptably low oil prices, ConocoPhillips on April 16 announced its decision to curtail May production in Canada and the L48 by 225,000 BOPD gross. On April 30, we announced that we intend to curtail our June North Slope production from Kuparuk and our Western North Slope fields by 100,000 BOPD gross. This decision will be reviewed on a month-to-month basis. The market conditions that are driving our decision to curtail production will also be key in our decision to resume North Slope drilling. The decision of the voters on the oil tax ballot measure will also play a role. If the ballot measure passes, it will result in a significant tax increase, even at low oil prices, and will put a brake on future investment and stall recovery of North Slope activity.

In anticipation of some your questions, I want to make a few comments about the curtailment we are planning.

- The amount of curtailment is driven by the minimum production required to run the facilities. We are not completely shutting in production because of the cost and complexity of a total field shut down. We want to be able to respond if market conditions improve.
- We have discussed the curtailment with Alyeska Pipeline Service Company. The volume we are curtailing will not adversely impact their operations.

- This is a separate action from the TAPS proration. Our curtailment ramp down will begin in the latter part of May.
- We are planning on ramping down production from the Colville River Unit to approximately 25,000 BOPD (down from about 55,000 - 60,000 BOPD) and 35,000 BOPD from the Kuparuk River Unit (down from about 100,000 BOPD).

As I am sure you will hear many times this afternoon, we are in extraordinary times. Our company, and I feel confident I can also speak on behalf of our employees, is very concerned about the state of the Alaskan economy and the wellbeing of the state's residents. We have taken a number of actions in response to the COVID threat to put barriers in place to prevent its spread and to protect our workforce, their families and Alaskans at large. We are also continuing our philanthropic donations. To date we have made close to \$3MM in donations to non-profits around the state and have recently made a \$200,000 donation, including a \$100,000 matching grant, to the Alaska Can Do campaign. The Alaska Can Do campaign is being run by the United Way of Anchorage and The Alaska Community Foundation, with support from the Rasmuson Foundation. The campaign is aimed at providing immediate and long-term support to nonprofits that serve Alaskans whose lives have been impacted by the pandemic. Our other donations also include support for non-profits like Bean's Café, Covenant House, Catholic Social Services, Blood Bank, Campfire, AWAIC and many more organizations that are particularly critical in providing support in today's environment.

In closing, the response to the COVID pandemic, in combination with unheard of demand destruction from the reaction to the COVID threat, has caused us to significantly reduce North Slope activity. As of today, we have not had a COVID-19 case in our North Slope operations or among our town-based employees. Our goal is to weather this storm and get investment, jobs and the North Slope Renaissance back on track. In line with this, we are talking to our contractors and encouraging them to hire Alaskans for any openings they may have. The recovery, however, will depend on when oil demand and prices recover. It will also be dependent on the investment climate – and by that, I mean whether or not the oil tax initiative passes.

That concludes our prepared comments. We will be happy to take any questions you may have.