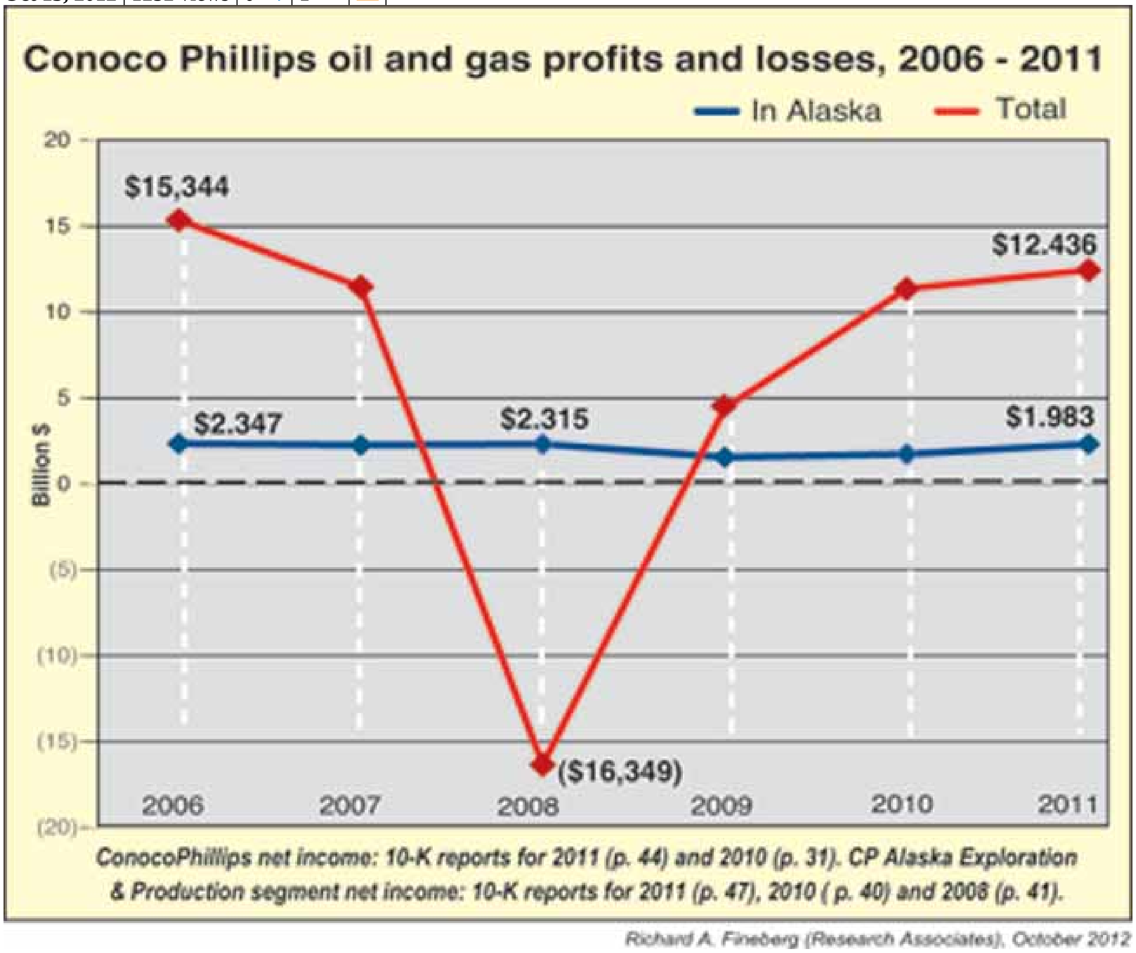
ConocoPhillips Data Reveal North Slope Profitability



“They say one picture is worth a thousand words, but here’s one picture that is worth $2 billion per year: Using data that ConocoPhillips reports annually, the attached chart highlights the contrast between steady, after-tax profits the company earns in Alaska and the company’s erratic results from its operations in the rest of the world.”

– Richard A. Fineberg, “Oil Profits Weather ‘Hurricane,’” *Fairbanks Daily News-Miner*, Oct. 14, 2012

The original version of this chart appeared on the cover of Fineberg’s April 2011 report, *Establishing a Rational Foundation for Review, Formulation and Implementation of Alaska's Oil and Gas Fiscal Policy* <http://www.finebergresearch.com/pdf/april2011oiltaxreport(rev).pdf>.

These data from the ConocoPhillips (CP) 2011 Securities and Exchange Commission (SEC) 10-K 2011 report are supported by CP’s assessmernt of its future profitability, which indicates once again that under the current tax regime CP expects Alaska to outperform all other regions in its corporate portfolio. (For more on the methodology required by SEC to standardize reporting on future petroleum production profitability, see *Establishing a Rational Foundation*, pp. 33-41.)

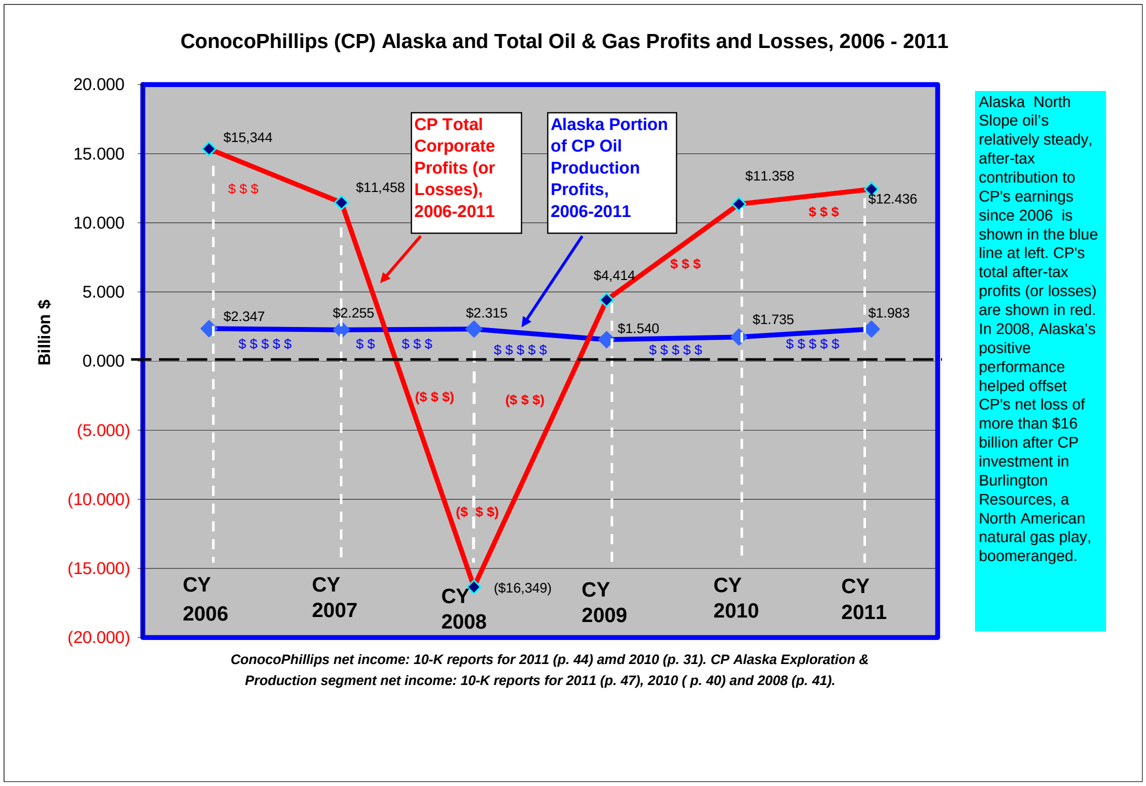
October 14, 2012 *Fairbanks Daily News-Miner* “Community Perspective” and *Anchorage Daily News* “Compass” appear on following pages. (Note: Both were posted circa 11:30 PM Oct. 13.)

***Anchorage Daily News* (Compass)**

Oct. 14, 2012, p. B-2.

Alaska’s tax structure now is good to oil

CP’s estimates of future global returns, filed to meet SEC requirements, indicate the company’s expectation that its Alaska investments will outperform its investments in other parts of the world – and will do so by significant margins.



– Richard A. Fineberg (Research Associates), October 2012

By Richard A. Fineberg

Let's face it: If ACES really lived up to its promise of Clear and Equitable Shares of oil revenue, much of the rhetoric in current oil tax debates would vanish. Although I'm a big fan of detailed analysis, I will show you a single picture that counters the belief that cutting Alaska oil taxes might spur development: The attached chart shows the contrast between the steady, after-tax profits ConocoPhillips (CP) reports taking home from Alaska in the six years since the state switched to the profits-based production tax, compared to that company's erratic global net profit results.

These data were reported by CP – one of three companies which control 95 percent of North Slope production and are in the process of increasing TAPS ownership from 95 percent to 100 percent – in its annual Securities and Exchange Commission 10-K reports. The contrast between these two sets of data looks like the Parks Highway crossing at Hurricane Gulch, 170 miles north of Anchorage, where travelers cruise across a high bridge spanning a spectacular, steep-sided gorge. CP's Alaska profits resemble the highway gliding smoothly over the abyss beneath the Hurricane bridge. The steep slopes beneath that bridge form a dramatic "V" that matches CP's overall profit plunge in 2008.

Look at a few of the numbers in this picture:

• In the six years since the state shifted to a net profits tax, ConocoPhillips has reported $12.3 billion in after-tax profits from Alaska (the highway on the bridge).

• In 2011, CP raked in $1.983 billion – an average of nearly $4,000 per minute, day in and day out.

• In contrast to these excellent returns from Alaska, overall CP suffered a severe profit collapse in 2008 due to a loss attributed to natural gas investments in the Lower-48 that went sour as natural gas prices crashed. CP's Alaska net profits for 2008 and 2009 of $3.8 billion compares with the company's total net loss of $11.9 billion over the same two years, as shown in the chart.

• Over this six-year period, while CP's Alaska production declined by 34 percent, the company's reported Alaska net income for 2011 was only 16 percent below its 2006 Alaska earnings. These figures show that as oil prices rose under the Alaska tax regime, CP took in a greater per-barrel share.

Despite these facts indicating CP's superior Alaska performance under the present fiscal regime, misguided tax cut advocates argue that to reverse Alaska's declining production the state should give up an estimated $2 billion per year in oil taxes, in hopes (but without guarantees) that CP and its producing partners will spend that money on Alaska investments. Ignoring CP profitability data and other economic and geologic realities, they claim a progressive surcharge at speculatively high future oil prices now forces would-be investors to leave Alaska.

Another important data set in the CP SEC report challenges the industry demand for a big Alaskan oil tax cut: Looking forward, CP's estimates of future global returns, filed to meet SEC requirements, indicate the company's expectation that its Alaska investments will outperform its investments in other parts of the world – and will do so by significant margins.

Unlike CP, neither of the other two major North Slope producing companies – ExxonMobil and BP – are required to report the details of their Alaska operations. Moreover, state management systems such as the petroleum audit unit are notoriously incapable of producing reliable data, while the state has had to litigate to obtain large sums of money the industry has underpaid – a process that takes years.

In this troubled situation, I believe that state senators such as Hollis French and Bill Wielechowski deserve great credit for their efforts to provide the public with basic facts as they seek constructive solutions to North Slope petroleum development issues. Look for candidates with the brains to recognize the significance of the SEC 10-K data on ConocoPhillips and the guts to use this information.

Richard Fineberg is an independent Fairbanks-based analyst who has observed North Slope and trans-Alaska pipeline issues since 1975 as a reporter, a state policy analyst and a consultant to state, federal and non-government organizations.

Accessed Oct. 15, 2012 at http://www.adn.com/2012/10/13/2658985/compass-conocophillips-does-fine.html. (CP profits chart that appeared with hard copy Oct.14 at p. B-2 was not available on line.)

***Fairbanks Daily News-Miner* (Community Perspective)**

Oct. 14, 2012, p. F3

Oil profits weather 'Hurricane'

ConocoPhillips expects Alaska to outperform every other oil province

by Richard A. Fineberg

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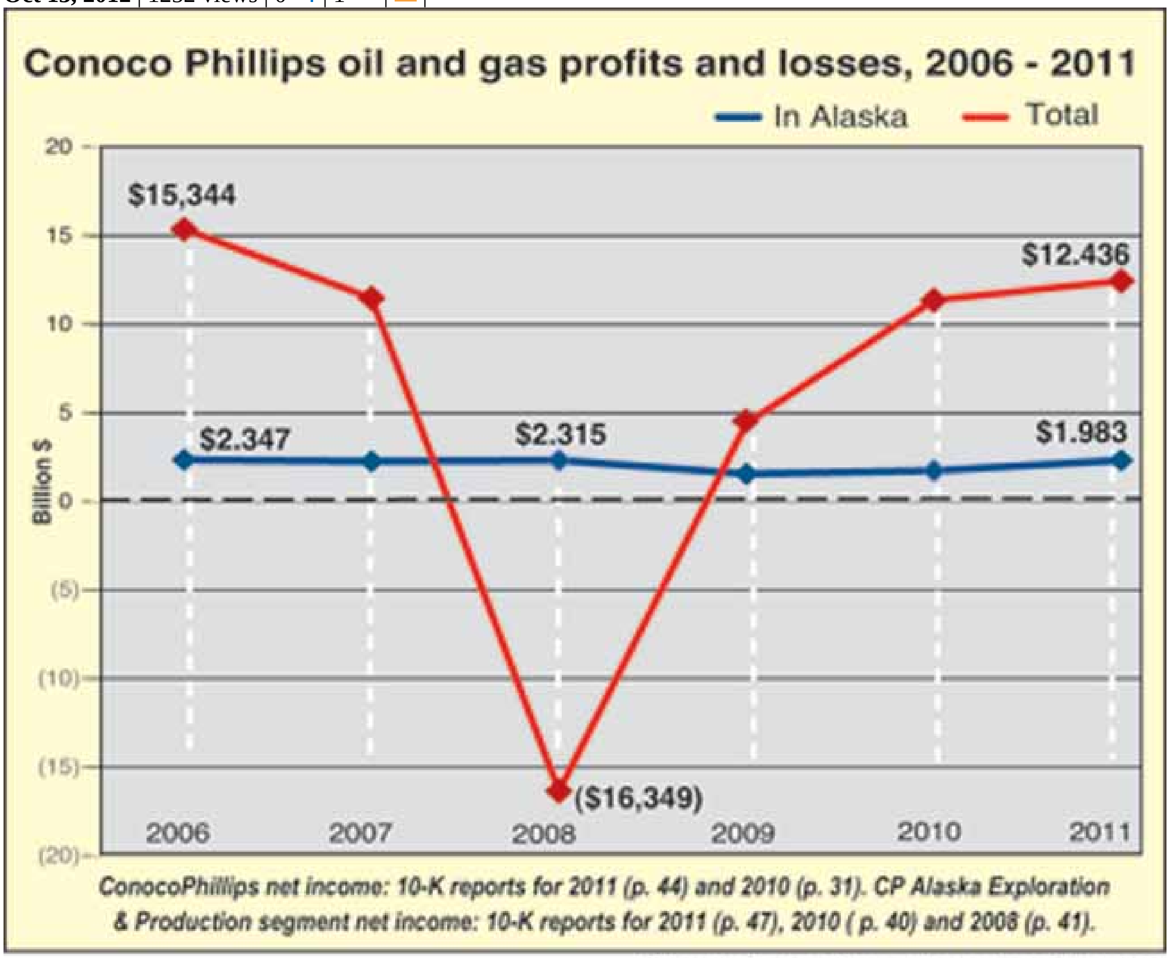

Richard A. Fineberg (Research Associates), October 2012

They say one picture is worth a thousand words, but here's one picture that is worth $2 billion per year: Using data that ConocoPhillips reports annually, the attached chart highlights the contrast between steady, after-tax profits the company earns in Alaska and the company's erratic results from its operations in the rest of the world.

Since Alaska switched to a cost-based petroleum production tax six years ago, ConocoPhillips has reported net profits from Alaska averaging more than $1.9 billion per year. But ConocoPhillips is still recovering from a profit collapse outside Alaska in 2008, when it suffered a tremendous loss that was attributed to natural gas investments in the Lower 48 that went sour as natural gas prices crashed. ConocoPhillips' Alaska net profits of $3.8 billion for 2008 and 2009 compares to the company's total net loss of $11.9 billion during the same two years, as graphically demonstrated in the chart.

When ConocoPhillips' performance in Alaska and the rest of the world are viewed together, the resulting picture of the last six years looks like the Parks Highway crossing at Hurricane Gulch, 170 miles north of Anchorage. At Hurricane, travelers cruise across a spectacular, steep-sided gulch on a high bridge. ConocoPhillips' Alaska profits resemble the path of the highway, gliding smoothly over the abyss beneath the Hurricane bridge. Beneath the bridge, the steep slopes form a dramatic "V" that matches ConocoPhillips' overall 2008 profit plunge.

These data graphically demonstrate that the major North Slope producers do not need the $2 billion annual giveaway in Alaska tax cuts that the governor, the industry and misguided citizens have been advocating for the last two years.

As a long-time observer of Alaska oil and gas policy issues, I have noticed that in the confusion that typically swirls around the controversial oil proposals, even the most basic facts can get lost. For example, ConocoPhillips is one of three companies that wield tremendous power by controlling roughly 95 percent of Alaska North Slope crude oil production; the same three companies also own a roughly similar percentage of the trans-Alaska pipeline system.

A host of facts buried in the company's dense reports to the U.S. Securities and Exchange Commission support the challenge to the tax cut proposal. For example:

• In the six years since the state shifted to a net profits tax, ConocoPhillips has raked in $12.3 billion in after-tax profits from Alaska — an average of nearly $4,000 per minute, day in and day out.

• During this period, while ConocoPhillips' Alaska production has declined by 34 percent, the company's reported Alaska net income for 2011 — $1.983 billion — is only 16 percent less than its 2006 Alaska profits.

In addition to these historical facts, another important set of data in the ConocoPhillips SEC reports is also overlooked: Looking forward, ConocoPhillips' estimates of future performance, filed in conformance with SEC requirements, indicate that the company expects its Alaska investments to outperform its investments in every other part of the world by significant margins.

The facts that ConocoPhillips has earned remarkably steady profits from Alaska under the current tax regime and anticipates higher future returns from Alaska than from other regions undermines that company's plea for a big Alaskan oil tax cut.

While ConocoPhillips is required to file public information relevant to its Alaska operations in its annual 10-K report to the SEC, neither of the other two major North Slope producing companies — ExxonMobil and BP — are required to do so. Moreover, legislative hearings have demonstrated that state management entities such as the petroleum audit system are notoriously incapable of producing reliable data on petroleum expenditures.

In this troubled situation, I believe that state senators such as Joe Paskvan and Joe Thomas deserve great credit for their efforts to provide the public with basic facts as they seek constructive solutions to North Slope petroleum development issues.

The picture painted by the accompanying chart is worth $2 billion per year. Look for candidates with the brains to recognize the significance of the SEC 10-K data on ConocoPhillips and the guts to use this information.

Richard A. Fineberg of Ester is an independent policy analyst who has studied and reported on Alaska oil and gas development issues for nearly four decades.

Accessed Oct. 14, 2012 at http://newsminer.com/view/full_story_opinion/20489500/article-Oilprofits-weather-%E2%80%98Hurricane%E2%80%99?instance=com_perspectives