

**Testimony before the U.S. Senate
Committee on Energy and Natural Resources**

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Submitted by: Joe Marushack, President of ConocoPhillips Alaska

Introduction

Chairwoman Murkowski – My name is Joe Marushack, and I am the regional president for ConocoPhillips Alaska. Thank you for the opportunity to testify today.

Testimony Overview

In today's testimony, I will share with you our current development and exploration activity on the North Slope of Alaska, then provide what I believe are challenges to oil and gas development on federal lands.

Development and Exploration Activity

ConocoPhillips is Alaska's largest oil and gas producer. We have significant interests in the Prudhoe Bay Unit, Kuparuk River Unit and Colville River Unit. We are the operator of the Colville and Kuparuk units. We have approximately 1,200 employees and approximately 1,300 contractors working in our Alaska operations. We are one of Alaska's most active North Slope explorers and developers. Our history in Alaska goes back more than 50 years to the early days in Cook Inlet and the beginning of exploration on the North Slope. One of our heritage companies, ARCO Alaska, discovered the Prudhoe Bay Field. Another, Phillips Petroleum started the Asia Pacific LNG trade with the construction of the Kenai LNG plant in 1969. We have essentially been in Alaska since the beginning of Alaska's current oil and gas industry, and as a company with large federal and state leasehold positions, we hope to be here for decades to come.

This last year, we started production from CD5, a new drill site that accesses the western extension of the Alpine field. The Alpine field, in the Colville River Unit, is our western most development on the North Slope. CD5 is producing oil and gas from state lands outside of the NPRA and from federal and Alaska Native corporation owned lands inside the NPRA. CD5 is the first commercial oil development on Alaska Native corporation land in the NPRA. It took 11 years from our initial permit applications to first production, primarily due to working out the location of a bridge across the Nigliq Channel of the Colville River with the local residents and the subsequent permitting process.

We see more opportunity in the NPRA for additional production that capitalizes on existing infrastructure. Approximately 8 miles west of CD5 lies the location for Greater Mooses Tooth #1, discovered in 2001. We are currently moving forward with the development of Greater Mooses Tooth #1, also known as GMT1, and its total cost will be approximately \$900 MM gross, with

gross peak estimated production of around 30,000 BOPD. Peak employment during construction is estimated at about 700 positions and first oil is expected in late 2018. We also filed permits last August for a discovery we made in 2000 and confirmed in 2014 called Greater Mooses Tooth #2 or GMT2. We hope to approve funding by the fourth quarter of 2017, with first oil planned for the end of 2020. Each of these locations lies close to existing facilities at Alpine, and would make use of existing pipelines and processing facilities.

This winter we are drilling three exploration wells: two in the Greater Mooses Tooth Unit (Tinmiaq 2 and 6) and one well from the CD5 pad (Hyperion), all of which are located in the NPRA near existing infrastructure.

At 24 million acres, the NPRA is an area the size of Indiana. The surface occupancy of our current operations and planned developments is approximately 185 acres or 0.0008 % of the surface area of the NPRA. The lessons we have learned from almost 50 years of experience on the North Slope have allowed us to significantly reduce our operational footprint and successfully produce oil and gas with minimal environmental impact. We pay special attention to subsistence hunting activities that occur in the area, and collaborate with representatives of the North Slope Borough communities to avoid or minimize impacts from our operations.

Beneficial impact of ConocoPhillips operations

On the North Slope, we work closely with the local borough government, the State, federal agencies and the local residents in all phases of our operations. In association with our North Slope operations, we have paid hundreds of millions of dollars in property taxes to the North Slope Borough; tens of billions of dollars in royalties, severance taxes, income taxes and additional property taxes to the state of Alaska; and billions of dollars in federal payments. We have also paid in excess of a billion dollars to Arctic Slope Regional Corporation resulting from production of its minerals underlying the Colville River Unit, which under the provisions of the Alaska Native Claims Settlement Act, benefits shareholders in Alaska Native Corporations throughout Alaska. From a socioeconomic perspective, we have driven the creation of thousands of jobs for Alaskans; created a multitude of opportunities for Alaska businesses; and developed good working relationships with the organizations that represent the interests of the North Slope residents.

One element of our operations as we move west into the NPRA is our relatively close proximity to the local village of Nuiqsut. Since we first began exploration in the NPRA area, we have worked closely with Nuiqsut to be good neighbors and address concerns about the potential impact of oil and gas development on their lifestyle. Our support for the North Slope Borough and Nuiqsut residents includes programs addressing education, subsistence, emergency response, community events, workforce development and employment. Time does not permit me to go over the long list of programs we have implemented, funded, or otherwise supported, but I have included that as Attachment 1 to my written comments. We believe the relationships we have developed with North Slope residents are mutually beneficial and provide the basis for understanding and working together to solve local concerns.

Challenging Environment

One of the common themes you may have noticed in the list of NPRA developments I mentioned a few minutes ago is the length of time between discovery and first oil. Some of this is driven by the natural environment we work in on the North Slope, and some by federal regulatory requirements. I will take a few minutes and discuss each of these.

As you probably know, exploration and development in the Arctic has its own special requirements. Because of the nature of the tundra, exploration wells drilled outside of our existing infrastructure are drilled in the winter using ice roads and ice pads when the tundra is frozen. The ice based infrastructure melts in the summer and leaves no marks. However, this reduces the amount of time available to drill to about 3 months out of the year. When it comes to developing an exploration discovery, the desire to minimize the development footprint requires that we process production from centralized facilities. It also requires that we drill wells from a central pad using expensive extended reach drilling. All of this leads to costly investments and longer timeframes for exploration and development than for land based operations outside of the Arctic. However, with almost 50 years of operating experience on the North Slope, we have developed expertise that allows us to develop and operate in a cost effective manner. Once we announce our intention to develop a discovery, assuming we have no permitting delays, we can move from the discovery phase to production in about six to seven years. That time period already includes three to four years for complex permitting and three years for engineering and construction.

From a regulatory point of view, the State of Alaska has implemented relatively efficient processes. Our key permitting challenge currently resides with the federal government whose regulatory framework, both offshore and onshore, is less well defined and continues to evolve.

Federal Permitting Challenges

There are a number of challenging regulatory issues we continue to have with development on federal lands, and I'll summarize several of those for you today.

In order for development, conservation, and impact mitigation to proceed orderly in the NPRA, agency decisions must be predictable and reasonably durable. Predictability is essential for developers, residents, investors, the State of Alaska, the North Slope Borough, the Native Corporations, the tribes, and the villages on the North Slope. Since we first began exploring in the NPRA in 2000, we have seen steadily increasing and evolving requirements from the federal government. At this juncture in time, we have over 250 federal requirements that new developments must address in the NPRA. Again, time prevents me from reading the list to you, but I have included it as Attachment 2 to my written testimony. The steady increase in standards and mitigation measures is complicated by the agencies revisiting previous work, decisions and compromises. For example, an Environmental Impact Statement (EIS) was performed in 2004 that explicitly evaluated and approved roads proposed for the planned development of CD5,

GMT1 and GMT2. However, as permitting of each of these projects has proceeded, we have faced additional requirements that were not part of the original project scope, adding time to the schedule, increasing costs, and creating uncertainty regarding the viability of development.

It is our belief that the current standards and mitigation measures we follow in the NPRA more than adequately address concerns like potential impacts to the environment and subsistence hunting. We recognize the legitimacy of those concerns, but we feel strongly that they have been well-considered and properly addressed.

One federal issue that threatens even more uncertainty is the November 2015 White House memorandum calling for the Departments of Defense, Interior, and Agriculture; the Environmental Protection Agency (EPA), and the National Oceanic and Atmospheric Administration (NOAA); and all the bureaus or agencies within them - for example – the Bureau of Land Management (BLM), Bureau of Ocean Energy Management (BOEM), Bureau of Safety and Environmental Enforcement (BSEE), National Park Service (NPS), National Marine Fisheries Service (NMFS), and Fish and Wildlife Service (USFWS) - to develop new impact avoidance and mitigation standards in each agency's area of jurisdiction. This new policy has the potential to upset the balance of protection and development that Congress has directed in the laws under which the agencies operate. From what we have been able to discern, the bases for estimating impacts and associated mitigation measures are not well defined, not predictable and do not allow us to estimate the effect they may have on the overall economics of oil and gas development. We are also concerned that it may lead to overlapping mitigation requirements. As the agencies provide details around their plans, assuming there is a public process, we will be submitting comments regarding our concerns.

Other Opportunities

We would like to see increased lease sales, both onshore and offshore. In particular, we are concerned about the lack of regular leasing in the near shore Beaufort Sea. We believe there are attractive exploration opportunities on federal acreage in the Beaufort, but there has not been a lease sale since 2007. The recently announced plan does not have a Beaufort Sea lease sale planned until 2020. That represents 13 years between lease sales and makes exploration and development very problematic. We are also concerned about the statement in the recent lease sale announcement that there will be areas as yet undefined that will be excluded from leasing. In the past, we have seen some of the most prospective acreage in the NPRA taken off the table for leasing – we hope this does not occur for offshore areas under this new plan. With regard to the NPRA, we would like to see the BLM revisit and increase the acreage available for leasing. Responsible exploration and development benefits Alaska residents, the North Slope Borough, the State of Alaska, Alaska businesses and the federal government.

Closing

ConocoPhillips, through its heritage companies ARCO Alaska, Phillips Petroleum and Conoco, has been an active explorer and developer on both federal and state lands in Alaska, both onshore

and offshore, from Cook Inlet to the North Slope, for over 50 years. We have a track record of environmentally and socially responsible operations. Through our investments and those of other oil and gas companies, we have generated jobs for Alaskans and created wealth for the State of Alaska; Alaskan communities; Native regional and village corporations and their shareholders; and Alaskan businesses. Our business and socio economic impacts have been positive game changers to the state. While we are still very active on state lands, federal lands represent new opportunities to continue supporting the Alaska economy. It is our intent to work with the federal government, residents of the North Slope, the State of Alaska and other stakeholders to address concerns such that there is a reasonable regulatory framework guiding oil and gas exploration and development on North Slope lands.

Thank you for allowing me to provide my comments today.