

**Pre-Hearing Questions and Answers  
Energy and Environment Sub-Committee  
of the  
House Energy and Commerce Committee  
U.S. House of Representatives  
Tuesday, June 15, 2010**

- 1) **Please detail the capital investments ConocoPhillips has made in oil and gas exploration in each of the last three fiscal years. Of these, how much was spent on exploration of new fields?**
  - During 2009, 2008 and 2007, ConocoPhillips reported total exploration costs (capital and expense) of \$1.8 billion, \$3.1 billion and \$1.9 billion, respectively. Although it is unclear what is meant by the question's term "new fields," accounting rules define exploration costs as activities intended to add new proved reserves.
  - Additionally, ConocoPhillips reported total development costs of \$6.9 billion in 2009, \$8.7 billion in 2008, and \$8.1 billion in 2007. Of these totals, significant portions were expended to bring previously undeveloped reserves into production. This step follows the exploration process.
  
- 2) **How much has ConocoPhillips invested in each of the last three years on research and development generally? How much was on R&D of safer offshore drilling technologies? How much on technologies related to rig safety and accident prevention? How much was focused on spill response technologies? How much was focused on research regarding renewable and alternative energy sources (break down by renewable type; wind, solar, etc.).**
  - Our annual research and development expenses totaled \$190 million, \$209 million and \$160 million for 2009, 2008 and 2007, respectively. In addition, we spent \$142 million in 2009, \$94 million in 2008, and \$163 million in 2007 for other technology.
  - Expenditures on research and development of safer offshore drilling technologies totaled approximately \$1.3 million during this time period. From 10 to 15 percent of this funding is leveraged in joint industry projects in association with multiple operators and contractors. The majority of our R&D funding focuses on increasing efficiency without compromising safety. While this may appear to be a small investment, as an industry, drilling rig contractors and service providers are continuously engaged in researching and developing safer equipment. We actively seek to identify and partner with those companies that have the safest equipment and best safety records.
  - We spend a significant amount of money on rig safety and accident prevention. This is a core part of our business and an integral part of our operations. While we have not spent significantly on rig technologies, we have invested significantly on personnel training, selecting the right contractors and executing our operations in a manner that does not cut corners and maintains safety and environmental stewardship. The operator brings well design and execution expertise to the table and this is one of the single most-important items when discussing accident

- prevention. Our approach has resulted in continual improvement in our safety performance over the last five years.
- Our expenditures on spill response technologies are not reported separately in our financial reports. However, in the Gulf of Mexico, we are a member company of Clean Gulf Associates and Marine Response Spill Corporation. We are also a member of the Ohmsett facility in New Jersey (National Oil Spill Response Research and Renewable Energy Test Facility), which provides full-scale oil spill response equipment testing, research and training. Our Alaska Business Unit has abundant spill response equipment through Alaska Clean Seas, and we recently participated in oil-under-ice method testing through a joint industry project at a cost of \$1.2 million. Through our participation in industry groups such as API Emergency Preparedness & Response Committee, IPIEA Industry Technical Advisory Committee and Arctic Task Force, as well as our cooperatives, we continuously evaluate new technologies and equipment that maximize recovery and minimize waste creation during spill response.
  - Our annual investments in renewable and alternative energy research and development were \$56 million, \$52 million and \$50 million from 2007 through 2009 respectively, and we plan to invest \$55 million in 2010. Below is a breakdown of that investment by renewable energy type.

	(In Millions of Dollars)			
	2007	2008	2009	2010
<b>Renewable Energies</b>	<b>\$56</b>	<b>\$52</b>	<b>\$50</b>	<b>\$55</b>
- Biofuels	\$13	\$15	\$15	\$18
- Alt Energy	\$9	\$9	\$8	\$9
- CCS/Hydrogen	\$10	\$17	\$17	\$18
- Water Sustainability	\$0	\$2	\$3	\$3
- Gas and Coal to Liquids	\$24	\$5	\$0	\$0
- Heavy Oil, Other	\$0	\$4	\$7	\$7

**3) How much has ConocoPhillips invested in deployment of renewable or alternative energy in each of the last three fiscal years? Please break down that investment by renewable energy type (wind, solar, etc.). What proportion of your revenue is currently derived from renewable or alternative energy production?**

- Since the creation of ConocoPhillips in 2002, we have been focused on successfully building a world-class integrated oil and gas company with a diverse portfolio of assets and hydrocarbon reserves. During that time we have made modest investments in renewable and alternative energy, advancing solutions that build on our traditional competencies (e.g. existing biofuels) and researching second generation renewable energy options and investment opportunities with the goal of making prudent investments at the appropriate time.
- ConocoPhillips' investments in deployment of renewable or alternative energy over the last three fiscal years were focused on supplying biofuels for the transportation market. These investments were primarily for infrastructure for

blending, as well as completing the commercialization of renewable diesel fuel production. These investments are summarized below:

	Million \$			
	2007	2008	2009	Total
Infrastructure				
Ethanol	5	17	3	25
Biodiesel	3	6	1	10
Production				
Renew. Diesel	3	--	--	3
<b>TOTAL</b>	<b>11</b>	<b>23</b>	<b>4</b>	<b>38</b>

- There is currently no significant revenue stream from renewable or alternative fuel production. Production in the U.S. of renewable diesel fuel was discontinued because Congress blocked application of government subsidies given to other forms of biodiesel.
- 4) What steps do you believe the U.S. government and private industry should take to reduce the threat posed by climate change? Does ConocoPhillips support an economy-wide cap on greenhouse gas emissions that includes transportation fuels? Would ConocoPhillips be able to pass any of the cost of purchasing emission allowances through to its customers? If so, what percentage?**
- The United States should enact new federal legislation to manage greenhouse gases. A variety of legislative frameworks, including cap-and-trade, could achieve the nation's climate and energy security goals if properly designed.
  - Any program should:
    - establish a clear and transparent price on carbon,
    - treat consumer groups, industrial sectors and regions of the country equitably,
    - preempt competing state and federal greenhouse gas regulation,
    - promote efficiency and new energy technology,
    - provide for a smooth transition to a low-carbon economy, and
    - recognize the role and benefits of natural gas in achieving a lower-carbon energy future.
  - If transportation emissions are included in a cap-and-trade system, the program should create a clear price signal for consumers, reduce refining sector exposure to allowance price volatility, and minimize sector working capital requirements.
  - Refining sector responsibility for consumer transportation emissions could result in significant stranded costs, potentially impacting refining sector profitability, employment and production.
  - Cost pass-through will not be 100 percent due to market factors such as the availability of surplus refining capacity, availability of alternative fuels and vehicles, and facility-specific factors such as complexity and ease of imports into the area.

- 5) **Is it the view of ConocoPhillips that the world oil market is a free market where oil prices are dictated solely by supply and demand? If no, what other factors determine the global price of oil?**
- Global oil prices are set by the fundamental forces of supply and demand. Because global supply and demand are both relatively unresponsive to price in the short term, large price movements are required to return supply and demand to equilibrium when they become out of balance due to demand surges or supply disruptions. In the long term, oil prices should fluctuate around the cost of reserve replacement of the marginal supplies needed to satisfy demand. However, near-term prices can be above or below this level depending on current market conditions.
- 6) **How many offshore leases does your company hold under the Deep Water Royalty Relief Act that are not subject to the suspension of royalty relief based on market price? How much does ConocoPhillips project to avoid in royalty payments on these leases over the next five years and over the next 25 years?**
- ConocoPhillips currently holds interests in 10 leases that were issued under the DWRRA. Four of these leases were unsuccessfully tested with an exploratory well in 2009. These leases will expire Nov. 30, 2010. On two of these leases, ConocoPhillips elected not to participate in exploration and development activities and is in the process of assigning its interests in these leases to the operator of record. On one of these leases, ConocoPhillips' retained interest is only for depths below 11,000 feet, in which no production exists. The remaining three leases comprise the K2 Field, where ConocoPhillips previously assigned its rights to any value arising from royalty relief to the operator of record. Therefore, ConocoPhillips does not expect to recognize any value from royalty relief on these leases.
- 7) **What impact would drilling by ConocoPhillips in the U.S. Atlantic and Pacific Outer Continental Shelf areas previously under moratoria have on U.S. motor gasoline prices in 2020 and 2030? What impact would it have on total U.S. oil production and consumption?**
- ConocoPhillips has not independently researched these questions. However, the National Association of Regulatory Utility Commissioners (NARUC) published a study earlier this year that addresses your questions.\* The study compares an energy future out to 2030 that maintains all production moratoria against an alternative future that eliminates the moratoria. It also revised both futures to incorporate the Gas Technology Institute's updated estimates of oil and gas resources.
  - In the NARUC study, a continued moratorium resulted in annual average motor gasoline prices increasing by 3 percent (with natural gas cost increasing an average 17 percent annually). Total energy costs to consumers were projected to increase by \$2.35 trillion cumulatively through 2030, representing an annual average increase of 5 percent.
  - In terms of impact on U.S. oil production and consumption, domestic crude oil production was projected to decrease as a result of a continued moratorium by 9.9

billion barrels – an average annual decrease of nearly 15 percent. This study did not project any essential changes to U.S. energy consumption, energy intensity or vehicle miles traveled. As a result of reduced production and unchanged demand, import costs for crude oil, petroleum products and natural gas were projected to increase cumulatively by \$1.6 trillion by 2030 – an average annual increase of more than 38 percent.

- The NARUC study also projected adverse impacts from a continued moratorium on U.S. employment, income and the economy. For example, employment in energy-intensive industries was projected to decrease by nearly 13 million jobs. Gross Domestic Product (GDP) was projected to decrease cumulatively by \$2.36 trillion.
- A study by ICF International\*\* in 2008 also addresses some of your questions. By 2030, U.S. oil production from moratorium areas could increase by 1.13 million barrels per day in the middle resource case and 2.03 million barrels per day in the alternative case.
- The ICF study also concluded that lifting the moratorium would increase government revenues cumulatively by \$547 billion in their middle resource case and \$1,695 billion for their alternative case. When these revenues are added to those from areas already accessible, total government revenues from development of all U.S. oil and gas resources on federal lands in the OCS, ANWR and Rockies could exceed \$4 trillion over the life of the resource.

\* Science Applications International Corporation & Gas Technology Institute, prepared in coordination with the NARUC Moratoria Study Group, “Analysis of the Social, Economic and Environmental Effects of Maintaining Oil and Gas Exploration and Production Moratoria On and Beneath Federal Lands,” Feb. 15, 2010  
[http://www.naruc.org/Publications/NARUC\\_MORATORIA\\_REPORT\\_02-17-10.pdf](http://www.naruc.org/Publications/NARUC_MORATORIA_REPORT_02-17-10.pdf)

\*\* ICF International, prepared for the American Petroleum Institute, “Strengthening Our Economy: The Untapped U.S. Oil and Gas Resources,” Dec. 5, 2008

**8) Does ConocoPhillips support the elimination of the subsidies for oil and gas companies identified in the President’s Budget Request for Fiscal Year 2011?**

- ConocoPhillips does not agree with the assertion that all the oil and gas items listed in the President’s Budget Request constitute “subsidies” to the oil and gas industry.
- Like many other industries, the oil and gas industry involves certain activities and expenditures that are unique to the industry. There are, however, analogous items of tax treatment within other industries, for the various items listed. Simply because an item of tax treatment is unique to the oil and gas industry should not infer that the item is inconsistent with a neutral system of taxation.
- ConocoPhillips supports efforts to make the U.S. tax system more tax-neutral, such that markets and consumers may make decisions regarding various

alternatives based upon those that best meet their needs at competitive prices. We further believe that the push for neutrality in taxation should extend to all industries; not be limited to the energy sector; and should only be undertaken as part of a broader tax reform effort.

- In fact, the proposed changes are not tax-neutral and would cause a significant increase in operating costs. Prudent operators will elect to deploy their capital outside the U.S.

**9) How many deep water oil rigs does ConocoPhillips operate in the Gulf of Mexico; how many does it operate around the world? In which countries are these rigs located? What are the major differences in regulatory, royalty and tax policies between these countries that affect your operations and how do they compare to the United States?**

- In the last three years, ConocoPhillips has not operated any deepwater drilling rigs in the Gulf of Mexico. As of June 1, 2010, ConocoPhillips was operating one drilling rig in deepwater (depths greater than 500 feet) in the Browse Basin off the northwest coast of Australia. Typically, on a global basis ConocoPhillips is utilizing one or two rigs in deepwater. We presently have no operations underway, and our next planned deepwater well is offshore Indonesia in the fourth quarter of 2010.
- One regulatory difference between the U.S. and the approach taken in the U.K., Canada and Australia is the use of a safety case-based approach, whereby risks to health, safety and the environment are identified and mitigation plans associated with these risks provided.
- While they can impact whether drilling operations occur, royalty and tax rates don't impact *how* drilling operations are conducted. Safe operations are essential to the successful execution of any drilling well regardless of where it is located. Properly engineered solutions are an essential part of the successful process of drilling safely in deepwater.
- The single most important difference between the various jurisdictions (including the U.S.) is not the regulatory, tax and royalty policies alone, but rather how those policies relate to the overall availability and size of the resources that are accessible within a country. In a jurisdiction with broad availability to major low-cost reserves that also offers adequate infrastructure and political/fiscal stability, the total government take may be higher than the average, whereas in areas of low availability or high levels of cost or political/fiscal instability, the government take must necessarily be lower; otherwise, prudent operators will elect to deploy their capital elsewhere.
- Differences in regulatory, royalty and tax policies (for this purpose, collectively, "Government Take") applicable to our operations are significant from one jurisdiction to the next. Differences may occur in marginal tax rates, as well as the bases upon which those rates are levied.
- Another major difference between most other countries and the United States is that the U.S. continues to apply a "world-wide" system of taxation, whereas most foreign competitor nations now apply a "territorial" system of taxation.

**10) What is the maximum worst-case spill scenario ConocoPhillips is prepared to respond to from offshore oil operations in the Gulf of Mexico? Please outline the emergency plans you have in place to deal with deep water blowouts.**

- Prevention of any spill through appropriate project planning, design, implementation and leadership is our first objective.
- If a spill occurs, ConocoPhillips has plans and an organization in place to manage the response to any emergency involving our operations. Our incident response can quickly escalate to include the resources of the entire company as needed. We staff an Incident Management Assist Team (IMAT) designed to provide sustainable and expert assistance for any incident. IMAT is based on the National Incident Management System (NIMS) Incident Command System and operates within a tiered response framework, which allows for mobilization of resources at varying levels.
- The Unified Command structure allows ConocoPhillips to work with all agencies with responsibility for the incident, whether geographical or functional, to manage an incident by establishing a common set of incident objectives and strategies. The Unified Command is responsible for the overall management of the incident and directs incident activities, including the development and implementation of strategic decisions as well as approving the ordering and releasing of resources.
- Specific to an oil spill in the Gulf of Mexico, ConocoPhillips is part of industry consortiums Clean Gulf Associates (CGA) and Marine Spill Response Corporation (MSRC), whose capabilities include a large inventory of vessels, equipment and trained personnel, complimented by a large contractor work force. If a spill occurred, ConocoPhillips would initiate mobilization of these resources including but not limited to dispersant aircraft and skimming vessels. If needed, resources from other entities would also be applied to the spill response.
- Offshore response strategies may include attempting to skim the oil utilizing oil spill response vessels and barges. Dispersants may be a viable response option. If the spill is unabated, shoreline impact would depend on existing environmental conditions. Near-shore response may include deployment of shoreline booms on beach areas, or protection and sorbent booms on vegetated areas. Strategies would be based on surveillance and real-time trajectories provided by an emergency response consultant that depict areas of potential impact given actual sea and weather conditions.
- It is clear that the entire industry's preparations for spill response could be improved and ConocoPhillips is interested in doing more in this area both individually and in conjunction with possible joint industry and government projects.

**11) What dispersants does ConocoPhillips have stores of and why were they selected? How much of each formulation do you have? Where are such stores kept? What are the logistical and implementation challenges, if any, associated with changing type of dispersant?**

- ConocoPhillips has no company-owned stores of dispersant. Any use of dispersant by ConocoPhillips, once federally approved, would be facilitated

through the Marine Spill Response Corporation (MSRC), of which ConocoPhillips is a member company. MSRC utilizes both COREXIT 9500 and 9527 dispersant, with stockpiles kept in several locations around the country.

- Testing is likely required when changing the type of dispersant. Efficacy testing is fairly straightforward and can be done in-house. Toxicity testing would be outsourced and can take months if you are looking beyond acute toxicity into issues like bioaccumulation.

**12) Does ConocoPhillips conduct any evaluations regarding the efficacy or the toxicity of dispersants and if so what are the results?**

- ConocoPhillips does not conduct any evaluations regarding efficacy or toxicity of dispersants.

**13) Does ConocoPhillips believe that Corexit is the most effective EPA-approved dispersant for south Louisiana crude oil to respond to the current spill in the Gulf of Mexico? Does ConocoPhillips have a financial interest in or other relationship with any companies that manufacture or sell an EPA-approved dispersant?**

- Based on industry and MSRC recommendations, as well as EPA approval, ConocoPhillips believes that COREXIT is the effective EPA-approved dispersant for South Louisiana crude oil, which is involved in the current spill in the Gulf of Mexico. ConocoPhillips has no financial interest in any companies that manufacture or sell an EPA-approved dispersant. We have a contract in place with Nalco, which manufactures COREXIT, but that contract does not deal with dispersants and is specific to other areas.

**14) What recommendations does ConocoPhillips have for improving the safety of offshore drilling and the efficacy of oil spill response?**

- At ConocoPhillips, safety is a core value and is fully integrated into everything that we do. We have robust policies, procedures, practices and review processes that have withstood the test of time. We must constantly ensure that these are being followed to help maintain and improve the safety of offshore drilling.
- ConocoPhillips has been working with two joint industry task forces (JITF), through the American Petroleum Institute, to quickly review equipment and operating practices in deepwater drilling. The recommendations from these two JITFs have been submitted to the Department of the Interior. ConocoPhillips believes implementing the recommendations of the two JITFs will improve the safety of offshore drilling.
- We support advancing spill response technologies to improve the preparedness of the industry.

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