Theresa M. Fariello
Vice President
Washington Office

June 11, 2010

The Honorable Edward J. Markey
Chairman
House Select Committee on Energy Independence and Global Warming
B243 Longworth House Office Building
Washington, D. C. 20515

Dear Chairman Markey:

Enclosed please find our company's responses to questions that you posed in your letter of June 3, in advance of the hearing next week in the House Subcommittee on Energy and Environment ("Subcommittee").

Although, the time period to respond to these questions was relatively short, we have incorporated in our written responses supporting materials, background data and other information that we believe will be helpful to the Subcommittee.

Sincerely,

EXXONMOBIL RESPONSES TO PRE-HEARING QUESTIONS:
SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING
U.S. HOUSE OF REPRESENTATIVES (JUNE 15, 2010 HEARING)

1. **Please detail the amount of capital investments ExxonMobil has made in oil and gas exploration in each of the last three fiscal years? Of these investments, please detail how much was spent on exploration of new fields?**

ExxonMobil's exploration strategy is to identify, evaluate, pursue, and capture the highest-quality resource opportunities. Our disciplined, systematic exploration process consistently delivers an industry-leading portfolio of highly prospective opportunities that provide long-term resource additions and organic production growth. The table below details the exploration related capital and expense (Capex).

	2007	2008	2009
ExxonMobil Exploration Capex ($G)	1.9	2.9	3.7

New field exploration represents about 80% of ExxonMobil's total investment in exploration with the balance spent on exploration near existing fields (Near Field Exploration) and acquisition and subsequent exploration of discovered undeveloped resources.

2. **How much money has ExxonMobil invested in each of the last three fiscal years on research and development generally? Of these research and development investments, how much was focused on the research and development of safer offshore drilling technologies? How much was focused 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? Please break down that investment by renewable energy type (e.g., wind, solar, etc.).

How much money has ExxonMobil invested in each of the last three fiscal years on research and development generally?

ExxonMobil's fundamental strategies are key to achieving sustained, outstanding performance in all aspects of our business. Through the superior execution of these strategies, ExxonMobil is able to meet the challenge of providing reliable, affordable energy in a responsible manner.

Operations safety and integrity are central to the successful execution of ExxonMobil's business strategies. The objective of operational excellence is embedded in our company culture and drives continuous improvements in all areas of our business. ExxonMobil has developed a wide range of management and operating systems that address critical aspects of our business, including: ethics, safety, corporate governance, security, health, environmental performance, operations reliability, business controls, project investment and execution, energy efficiency, profit improvement, and external affairs. The disciplined application of these management and operating systems, deployed through our functional organization, has consistently delivered superior results.

Another critical cornerstone of our success lies in our philosophy of disciplined investment. The energy industry is a long-term business that requires decisions to be made with a time horizon that is measured in decades, rather than months or years, and that spans multiple business cycles. Projects are tested over a range of economic scenarios to ensure that risks are properly identified, evaluated, and managed. This approach has helped sustain our success for more than 125 years through a variety of business cycles. Our proven project management system incorporates best practices developed around the world. Emphasis on the early phases of concept selection and effective project execution results in investments that maximize resource and asset value. We complete a rigorous reappraisal of all

major projects and incorporate learnings into future project planning and design, further strengthening our capabilities.

Our ability to invest with discipline and achieve leading safety and operational performance springs in large part from our leadership in the evolution of energy and energy technology over decades. The evolution of energy and technology is not new. Our energy landscape has transformed repeatedly over the past 150 years, as new technologies change not just how consumers use energy, but also the types of energy they use.

We recognize that technology is increasingly vital to meeting the world's growing demand for energy. Technological innovation creates resource opportunities by delivering cost-effective solutions in challenging environments, and enables the development of high-performance products and improved manufacturing processes. ExxonMobil has a long-standing commitment to fundamental research to develop and grow our technical capabilities and to deliver advantaged technologies for all of our businesses. We have a wide array of research programs designed to meet the needs identified in our functional businesses.

The full value of research and development programs -- and the technology, safety, operational and environmental advances they promote -- is by no means adequately measured by isolating spending in a particular year or particular category or particular technology. In considering such investments, ExxonMobil's approach is to seek, identify and capture value through integrated, synergistic practices over time across our business lines, rather than trying to access value through a snapshot of current spending in a particular area. While we have invested more than $4 billion in research and development over the past five years as reported to the SEC (including approximately $815 million, $850 million, and $1050 million in 2007, 2008, and 2009, respectively), the cumulative value we derive from these types of investments has and will continue to be determined in large part by our success in integrating new advances that often serve multiple purposes to improve technology, safety and operating practices across our businesses over time.

ExxonMobil's R&D spending is focused on increasing supply, lowering costs, lowering the environmental "footprint" related to energy, and supplying improved products in our oil and gas, refined products, and chemicals businesses and helping ensure we maintain our leadership in safety and operations integrity. Our global functional organization enables safe and rapid deployment of new technologies to add value.

To achieve leading safety and operational performance, ExxonMobil's philosophy is focused on incident prevention using safety / risk management systems, management of change procedures, and global standards. ExxonMobil has a mature Operations Integrity Management System (OIMS) culture that emphasizes relentless attention to Safety, Well Control, and Environmental Protection as well as learning and continuous improvement. This includes proper preparation for wells (well control equipment inspections / tests), monitoring, detecting and responding to an influx early, closing-in the well efficiently (personnel training / drills), and circulating out the kick with kill weight mud in a controlled manner.

ExxonMobil's approach to well control incorporates risk identification and mitigation onto every phase of well construction:

- *Well Design, inclusive of casing and cement designs, are peer reviewed and approved at multiple levels*
- *Barrier Philosophy includes the use of tested redundant barriers*
- *Well Control Equipment is designed for redundancy including multiple preventers and blowout preventer control systems*
- *Rig Practices include daily briefings and frequent well control drills, equipment tests, strict tripping practices, flow checks, and fluids volume monitoring*
- *Additionally, ExxonMobil performs thorough rig and well control equipment inspections when accepting rigs and periodically thereafter with independent specialists. These inspections confirm and document the integrity of well*

control and other critical safety equipment and ensure non-biased assessment of equipment suitability.

ExxonMobil also has intensive in-house training programs to ensure the competency of our drilling personnel.

- *ExxonMobil holds Operations Safety Leadership Seminars (OSLS) four times per year, and rig site supervisors are required to attend twice each year. We use this forum to reinforce fundamental safety leadership principles, share technical learnings, and ensure alignment internally and with current industry best practices.*
- *ExxonMobil also holds week long Drilling Managers Meetings, Drilling Engineering Leadership Meetings, and Drilling Engineering Training Workshops each year to facilitate the sharing of global lessons learned, industry best practices, and discuss strategic direction / initiatives. Monthly global conference calls are also utilized to share information.*

ExxonMobil has also maintained an internal oil spill response research program for over 40 years that focuses its efforts on development of new or enhanced oil spill response technologies. A number of research efforts have also been undertaken by a variety of government agencies, academic institutions, and industrial participants since 1989 to improve upon existing technologies and response options. These have ranged from the innovative modification of existing equipment (e.g., mechanical skimmers) to the complete redesign of the chemicals used to treat an oil spill. An important aspect of the cooperative nature of this research has been the ability to share and discuss ideas at the technical conferences that occur around the world. These include the three year rotating venues of the International Oil Spill Conference (North America), SpillCon (Asia Pacific), and Interspill (Europe) as well as other regional (Clean Gulf) and international conferences.

ExxonMobil R&D investments impacting offshore drilling safety and reliability, rig safety and accident prevention, and spill response were approximately $50 million per year over each of the past three years. Research in this area is focused on

- *Ensuring reliable free operations which also underpin our industry leading safety record.*
- *Developing new tools and techniques in the areas of hazard identification, mitigation and personnel training.*
- *Response technologies as well as assessments of potential marine environment and fisheries impacts, the impact of marine sound, and drilling fluid environmental safety.*

ExxonMobil's long-term safety performance leads the industry. Our commitment to safety, security, health, and the environment creates a solid foundation for superior results in all aspects of our business. ExxonMobil's senior management and employees are committed to the goal of creating an incident-free workplace, and our culture reflects this objective. ExxonMobil drives improvement in environmental performance with the goal of reducing incidents with real environmental impact to zero. We conduct business using an approach that is compatible with both the environmental and economic needs of the communities in which we operate.

Meeting the world's long-term energy needs while also protecting the environment will require integrated solutions that include developing all economic energy sources. In years to come, oil and natural gas will continue supplying the majority of our energy because they are scalable, affordable, and versatile. But alternatives and next-generation fuels could also play an important role.

ExxonMobil invested more than $150 million in research and development on energy efficiency and alternative energy in 2009. Alternative energy here refers essentially to energy sources other than oil and natural gas and to products derived from non oil and gas based feedstocks. Examples include algae biofuels, wind turbine gear oil, solar, lithium ion battery components, as well as development of technologies related to CCS (carbon dioxide capture and storage), and technologies to convert solid energy sources such as biomass and coal to other usable forms of energy. Following are highlights of our latest new project – biofuels made from algae.

ExxonMobil has entered into a research and development alliance with Synthetic Genomics Inc. (SGI), founded by genome pioneer J. Craig Venter, to develop advanced biofuels from photosynthetic algae that are compatible with today's gasoline and diesel fuels.

The potential advantages and benefits of biofuels from algae could be significant. One advantage is that growing algae does not rely on fresh water or farmable land that could be used for food production. In addition, algae offer the potential to yield greater quantities of biofuels per acre of production than food crop based biofuel sources. Since photosynthetic algae consume carbon dioxide as they grow, algae-based biofuels could provide greenhouse gas mitigation benefits versus conventional fuels. In addition, algae have the potential to produce large volumes of oils that can be processed in existing refineries to manufacture fuels that are compatible with existing transportation systems and infrastructure.

The alliance between SGI and ExxonMobil will bring together the complementary capabilities and expertise of both companies to develop innovative solutions that could lead to the large-scale production of biofuels from algae.

While significant work and years of research and development must be completed, if successful, algae-based biofuels could help supplement the world's growing demand for transportation fuel without increasing greenhouse gas emissions. Under the program, if research and development milestones are successfully met, ExxonMobil expects to spend more than $600 million.

The algae-based biofuels program is one of several ExxonMobil efforts to advance breakthrough technologies to address the energy challenges of the world. Due to the competitive nature of R&D investments, ExxonMobil is not in a position to share more detailed spending in this area.

3. **How much has ExxonMobil 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 (e.g., wind, solar, etc.). What proportion of your revenue is currently derived from renewable or alternative energy production?

How much has ExxonMobil invested in deployment of renewable or alternative energy in each of the last three fiscal years?

Energy is the lifeblood of modern economies, and despite the economic downturn, we continue to invest for the long term. Over the period 2007-2009, our capital and exploration expenditures were approximately $74 billion, with $27 billion in 2009 alone. Over the next five years, we will continue to invest record amounts with plans to spend more than $125 billion to help meet global needs for reliable, affordable energy while minimizing environmental impacts.

Over the past five years, ExxonMobil has invested more than $4 billion in research and development. Our research efforts involve proprietary in-house research and collaborations with other businesses, as well as research partnerships with universities—such as the Global Climate and Energy Project at Stanford University, California—and government laboratories. Our active involvement in research on alternative energy technologies enables us to readily assess new developments for possible commercialization and investment.

Breakthrough technologies are helping ExxonMobil keep pace with rising global energy demand by making more energy supplies available while also reducing the environmental footprint of energy development. Technology is more important today than ever, since a significant portion of the world's oil and gas resources is located in challenging environments such as deep water, low permeability rock, and arctic regions. At the same time, we are pursuing advanced technologies to reduce our environmental impact and greenhouse gas emissions, including carbon capture and storage, algae-based biofuels, and cogeneration.

Since 2005, we have invested $1.3 billion in activities that improve energy efficiency and reduce GHG emissions. In our own operations, these investments include the cogeneration of power and steam, and improving energy efficiency:

- ***Cogeneration*** *-- Cogeneration is the simultaneous production of electricity to power our operations while capturing useful heat or steam for industrial processes. ExxonMobil has interests in about 4900 megawatts of cogeneration capacity in over 100 individual installations at more than 30 locations around the world. This is enough capacity to supply the electricity needs of more than 2 million U.S. homes. One of our newest high-efficiency cogeneration plants at our Antwerp refinery in Belgium generates 125 megawatts, enough energy to power the refinery as well as meet the needs of most of ExxonMobil's other Belgian manufacturing operations. The new plant will reduce Belgium's carbon dioxide (CO2) emissions by approximately 200,000 metric tons per year. We began operation of a new 250-megawatt cogeneration facility in China in 2009 and another similarly sized unit is under construction in Singapore that will increase our cogeneration capacity to more than 5000 megawatts in the next few years.*
- ***Energy efficiency*** *-- Since 2000, we have used our Global Energy Management System (GEMS) to systematically identify and address operational efficiency opportunities. We have identified ways to improve energy efficiency at our refineries and chemical plants and reduce costs by 15 to 20 percent. We have captured over 60 percent of these opportunities to date. In 2009, as a result of GEMS, we installed a power generator at our Kawasaki refinery in Japan, improving the refinery's energy efficiency by nearly 2 percent. We are on track to achieve our goal of improving energy efficiency across our worldwide refining and chemical operations by at least 10 percent between 2002 and 2012. Third-party benchmarking of our energy intensity indicates that ExxonMobil consistently operates more efficiently than the industry average. One of the challenges in achieving energy efficiency at our manufacturing sites is reliability. Optimal energy use can only be achieved if plants are running reliably, as unplanned downtimes cause inefficient use of energy. We manage this through our Global Reliability System (GRS), a subset of our Operations Integrity Management System (OIMS).*

Recognizing the importance of transportation and the rising number of vehicles in the world, it is clear that energy efficiency in the transportation sector will become increasingly important. To improve the efficiency of the global vehicle fleet, ExxonMobil is working to develop near-term and long-term advances in vehicle, fuel,

and lubricant technology, offering significant potential gains related to consumers' use of energy and related GHG emissions. Areas of focus include:

- *Advanced plastics make vehicles lighter. For every 10 percent drop in vehicle weight, fuel economy improves by ~7 percent.*
- *New tire-lining technology keeps tires properly inflated. Cars with properly inflated tires may save an extra tank of gas annually.*
- *Mobil 1 Advanced Fuel Economy can improve fuel economy by up to 2 percent versus motor oils most commonly used.*
- *Fuel cells with onboard hydrogen generation could be up to 80 percent more fuel-efficient than today's internal combustion engine.*
- *Advanced internal combustion engine and fuel system technologies that could achieve significant gains in fuel economy.*
- *Alternative fuels research could make fuels more available and affordable with lower life cycle GHG emissions.*

We also expect that concerns related to rising GHG emissions are likely to stimulate increased global demand for cleaner-burning natural gas, making it the fastest-growing major energy source for power generation. Compared to coal, natural gas has substantially fewer emissions of nitrogen oxides and sulfur oxides and can reduce CO2 emissions by up to 60 percent. While new gas or coal power plants with CCS technology present additional options for reducing GHG emissions, for the near term these alternatives will remain challenging and very expensive.

As the leading private equity holder of gas reserves and a leader in liquefied natural gas (LNG) technology, we are well positioned to play a role in meeting rising demand for natural gas. In the United States, an important development in supply has been the expansion of unconventional natural gas—the result of recent improvements in technologies used to tap these hard-to-produce resources. Unconventional gas is expected to satisfy more than 50 percent of gas demand in 2030 in the United States. In addition, worldwide demand for liquefied natural gas will continue to grow, led by Asia and Europe. To help meet this need, in Qatar we worked with our partners to build four of the world's largest LNG trains, the first of their kind. The trains will allow natural gas from Qatar's North Field to be super-cooled into liquid

form and then transported by specially designed carriers to markets around the world. We also developed with our partner, Qatar Petroleum, new LNG carriers that can transport up to 80 percent more LNG than current conventional-size carriers. Compared to conventional carriers, these vessels reduce energy use per delivered unit of LNG by 40 percent.

Meeting rising global energy needs will require steadfast pursuit of all commercially-viable energy options. The International Energy Agency recently estimated that energy supply investments will need to average approximately $1.1 trillion per year over the period 2008 to 2030, including about $480 billion per year for oil and natural gas. This represents a significant call on the capabilities of ExxonMobil and we are committed to helping meet these challenges.

Please break down that investment by renewable energy type (e.g., wind, solar, etc.).

Due to the competitive nature of investments, ExxonMobil is not in a position to share more detailed spending in this area.

What proportion of your revenue is currently derived from renewable or alternative energy production?

ExxonMobil derived about 20% of its revenue through sales of ethanol-blended gasoline and other biofuels, sales of lubricants used in wind turbine power generation, and from sales of electricity from our cogeneration units to the area utility grids.

4. **What steps do you believe the U.S. government and private industry should take to reduce the threat posed by climate change? Does ExxonMobil support an economy wide cap on greenhouse gas emissions that includes transportation fuels? Would ExxonMobil be able to pass any of the cost of purchasing emission allowances through to its customers? If so, what percentage would be passed through?**

Society currently faces and will continue to face, two major global energy-related challenges. The first is to maintain and expand supplies to meet growing global demand. The second challenge is to address the societal and ecological risks posed by rising greenhouse gas (GHG) emissions.

Managing GHG emissions and meeting growing energy demand requires action by individuals, companies, and governments. This will require an integrated set of solutions, and for ExxonMobil, this includes increasing efficiency, advancing lower carbon energy technologies, and supporting effective national and international policies. Our efforts aim not only to reduce emissions from our operations, but also to reduce emissions by end users of energy.

Throughout the world, policymakers are considering a variety of legislative and regulatory options to address the risks of climate change. ExxonMobil believes that any cost policymakers put on GHG emissions should be uniform across the economy and predictable over time. It is important to allow this cost to drive the development and selection of steps to reduce emissions, rather than having governments select solutions. We believe an economy-wide, revenue-neutral GHG tax is the most transparent, efficient, and cost-effective way to establish such a cost at a national level. This tax, sometimes referred to as a carbon tax, could be tailored to specific national circumstances and could form a transparent basis for equitable international efforts to mitigate emissions. In any national program, the initial tax profile should be periodically adjusted to reflect new scientific knowledge of climate change risks, technological developments, policy experience, and the evolution of international cooperation.

Any cost on greenhouse gas emissions, whether from a cap and trade system, a carbon tax, or command and control standards, will increase the cost of energy and of goods and services with embedded energy. How much of the cost on greenhouse gas emissions will be recovered in the market place through higher prices will be determined by the market and is impossible to predict. Market prices are influenced by numerous factors, including international competitiveness and local supply and demand balances.

5. **Is it the view of ExxonMobil 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?**

Crude oil prices are influenced by a multitude of factors. These include physical and fundamental factors such as supply, demand, inventory, and spare capacity, as well as expectations of the market participants on such matters as potential weather-related effects and outlooks on the growth of supply, demand, and capacity. In addition, crude oil prices can be affected by currency exchange rates, geopolitical developments, and the actions of investors and financial institutions. It is not possible to identify definitively the impact of individual factors on crude prices because many of the factors may be correlated to each other. In a highly competitive and transparent energy marketplace where thousands of transactions occur each day, prices move to levels where potential buyers and sellers enter mutually-beneficial transactions that efficiently balance supply and demand. In the first quarter of this year, the massive global oil market supported consumption of approximately 85 million barrels per day.

Markets must operate freely and not be subject to manipulation. Speculation and/or financial investment in futures contracts for commodities (such as oil), however, can add to market liquidity and thus the efficiency of the market for such commodities. While speculation in the commodities market does not increase supply or demand in the physical market for such commodities because there is a buyer for every position seller, it does provide an assessment of the expectations of forward price levels by market participants. Any proposals to limit speculation should be carefully considered to avoid unintended consequences such as reducing liquidity in the market.

ExxonMobil does not speculate in the oil or petroleum products markets. ExxonMobil's use of derivatives to hedge physical volumes is de-minimis.

ExxonMobil's limited derivative positions are linked to physical volume movements and are for the purpose of risk management hedging rather than speculation.

The crude oil used to manufacture the fuel Americans consume may have been produced in the United States or in any one of more than 35 countries, with over 70 percent of current U.S. oil needs met in North and South America alone in 2009. African nations provided over 10 percent of our needs in 2009. ExxonMobil is a substantial net buyer of crude oil and we pay the prevailing market price for the crude oil needed to supply our refineries.

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 ExxonMobil project to avoid in royalty payments on these leases over the next five years and over the next twenty-five years?**

The volumetric thresholds for leases issued under the terms of the 1995 Deep Water Royalty Relief Act are as follows:

1. *Leases in water depths of less than 200 meters are entitled to no royalty relief.*
2. *Leases in water depths of 200 to less than 400 meters are entitled to royalty suspension as to the first 17.5 MBOE.*
3. *Leases in water depths of 400 to less than 800 meters are entitled to royalty suspension as to the first 52.5 MBOE.*
4. *Leases in water depths of 800 meters or more are entitled to royalty suspension on any new production as to the first 87.5 MBOE.*

As of May 31, 2010, EM held an interest in 14 leases that are subject to the Deepwater Royalty Relief Act of 1995. Prior to the moratorium, two of these leases were scheduled to expire between June 1 and July 1, 2010.

ExxonMobil will pay royalty on leases issued under the terms of the Deepwater Royalty Relief Act of 1995 in which it owns an interest based on the terms of those leases and applicable rules and regulations. Of the 14 leases, only two are producing, and the others are subject to further exploration and evaluation. Hence, it is difficult to project how much royalty will be paid in the future. Our two producing leases will be required to pay full royalty when their volumetric thresholds are met.

7. **What impact would drilling by ExxonMobil 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?**

Current governmental estimates for the oil and gas potential in the OCS areas that have been closed to development were made using data from now-outdated technology, and we have seen significant resource underestimates result from this in the past. Many vast expanses of the United States have never been actively explored for oil and natural gas with modern technologies, including on the Atlantic and Pacific Outer Continental Shelf. Emergent technologies in recent years, however, have enabled the discovery and commencement of production of massive oil and gas reserves in the Gulf of Mexico Outer Continental Shelf and onshore in shale formations. Only by applying these new and still emerging exploration and production technologies to previously-banned areas will we be able to understand the true extent of the U.S. energy endowment.

Authorizing the safest development of America's significant energy resources represents an immense opportunity for restoring growth to our economy, not only for these challenging times, but also to underpin the longer term health of our economy. A recent study by ICF International indicated that developing areas that have been subject to federal bans on domestic energy development could allow for a 2 million barrel per day increase in the domestic production of oil (nearly 20 percent of current imports) and over 5 billion cubic feet per day of natural gas (approximately 50 percent of current imports). In this time of economic challenge, the entire U.S. oil and natural gas industry is working to renew growth as quickly as possible. Our

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industry supports over nine million jobs — and with our experience in managing throughout the business cycle, we look forward to acting as an ongoing source of strength, confidence, and wise investment. Earlier this year, ExxonMobil reinforced our commitment to maintain record levels of investment spending in the next five years, averaging between $25–30 billion annually. This year, we anticipate record spending of around $28 billion to meet growing global energy needs, an amount substantially exceeding our 2009 earnings of $19.3 billion. Our commitment to investing through the business cycle is strong, and we are hopeful for expanded opportunities to do so in the United States.

As to the impact of future domestic energy development on U.S. motor gasoline prices in 2020 or 2030, that would depend on how prolific reserve estimates prove to be, which cannot be known until areas are explored, and other factors relating to how expeditiously such reserves could reach the production phase. In general, numerous factors influence the retail price of fuel, and projections for future decades that attempt to isolate one factor (such as potential production from certain geographic areas) would be inherently speculative. However, factors influencing the retail price of fuel include supply and demand, competitive market conditions, taxes, environmental and energy market policies, and geopolitical events, just to name a few. The most significant factor historically has come from the price of crude oil, which is traded on the open market, globally. To the extent that there are more sources of secure crude oil available in the marketplace, such as those which would be supplied by OCS development, those reliable supplies should have a moderating effect on crude oil prices, and therefore, retail prices of gasoline. Of course, other significant factors could still work to offset or compound the positive effect of increased crude oil supplies.

8. **In response to post-hearing questions posed by this Committee in 2008, ExxonMobil stated that it believes the "government should not pick winners and losers" between energy sources and should not favor one energy source "at the expense of other energy supply sources." In light of these comments, does ExxonMobil support the elimination of the subsidies for oil and gas companies identified in the President's Budget Request for Fiscal Year 2011?**

The single largest item under the heading "Repeal of Fossil Fuel Preferences" in the President's Budget Request for Fiscal Year 2011 is the exclusion of US oil and gas production and refining activity from the manufacturing deduction under section 199. The manufacturing deduction is not a subsidy for oil and gas companies--it applies to all domestic manufacturing activity. Singling out oil and gas for exclusion from the manufacturing deduction is not eliminating a subsidy--it is taxing oil and gas at a higher rate than any other domestic manufacturing activity. How do we explain to the over two million workers in our industry that their jobs are somehow not as valuable as auto or steel workers?

That said, we do not believe that Congress should single out one type of energy from others for substantially different tax treatment. We need all forms of domestic energy production and our tax code should be as neutral and even handed as possible. We would support the elimination of all subsidies for all forms of energy, creating a level, market oriented, structure for energy development.

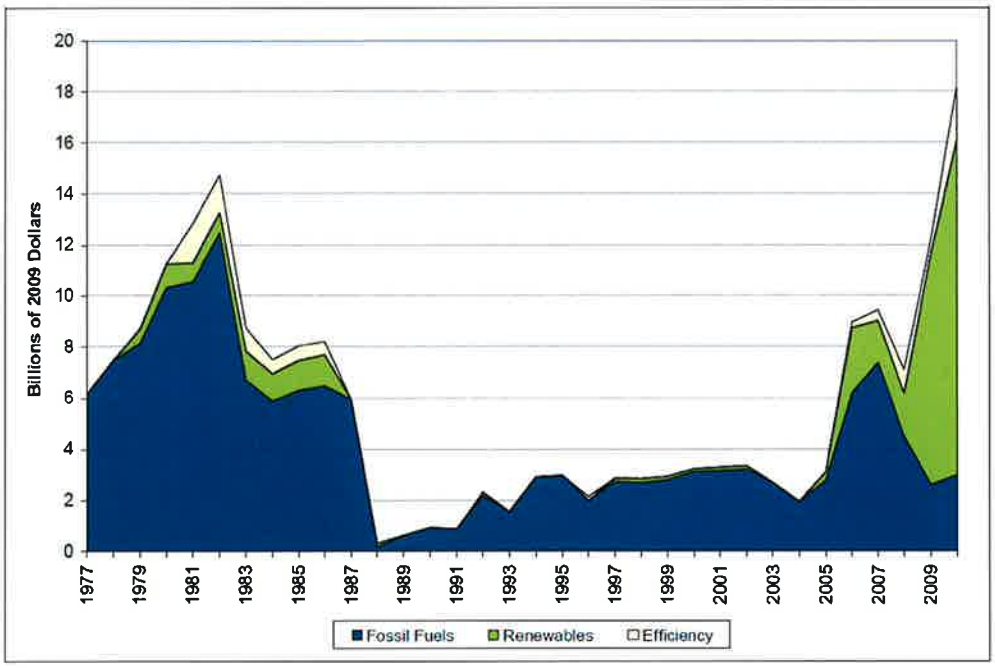
Under this approach, there are certain specific tax provisions uniquely applicable to oil and natural gas identified in the President's Budget for 2011 that we would not object to being eliminated, provided that similar items for other energy sources are also eliminated. This is what neutrality requires--i.e., if energy specific incentives are to be eliminated for some, they should be eliminated for all. In addition, tax provisions that apply irrespective of the business one is in should not be mischaracterized as energy specific "tax subsidies." There are several items misidentified as "subsidies for oil and gas companies" which are not in fact unique to the industry. These are explained below, and we do take exception to eliminating these provisions unless they, or their analogous provisions, are eliminated for all industries.

It is instructive to put energy "incentives" into perspective. The following chart from a recently published Congressional Research Service[1] report shows the relative

[1] *CRS Report, "Energy Tax Policy: Historical Perspectives on and Current Status of Energy Tax Expenditures,"* Molly F. Sherlock, May 7, 2010.

magnitude of revenue losses associated with tax incentives for fossil fuels, renewables, and energy efficiency over time.

Figure 4. Tax Expenditures: Incentives for Fossil Fuels, Renewables, and Efficiency
(1977 – 2010)



Source: CRS calculations using JCT tax expenditure estimates and data from the OMB.

Notes: Tax expenditures beyond 2009 are estimates and do not reflect legislation enacted after September 30, 2009. Values are adjusted to 2009 dollars using the OMB's GDP price index.

The CRS study makes the following points:

(1) "While the goal of energy tax policy has been to promote renewables and efficiency, the majority of revenue losses associated with energy tax expenditures in recent years have been associated with credits for unconventional or alcohol fuels. Even more striking is the fact that the primary beneficiaries of these tax credits--in both the case of the unconventional fuels production credit and the case of black liquor--were not those policymakers drafting the provision initially sought to subsidize."

(2) The "tax expenditures" shown do not include "excise tax credits and various other tax-related revenue losses, such as the "blenders credit" or the biodiesel producer tax credit. The magnitude of these additional items is substantial.

(3) Total energy tax expenditures in 2009 were approximately 1% of total tax expenditures. (A recent study published by the Center for American Progress found that tax expenditures in the Internal Revenue Code exceed $1 trillion/year[2]; thus "fossil fuel" related expenditures of approximately $3 billion/year accounted for less than one half of one percent of the total.)

In addition, in determining the "neutrality" of "tax expenditures" or "subsidies", it is important that comparisons be made on a meaningful and proportionate basis. For example, the Energy Information Administration has calculated the following tax subsidy amounts for the key energy sources per unit of energy produced [3]:

Fuel in Electricity Production	**Subsidy per Megawatt Hour**
Coal	0.44
Refined Coal (coal-based synfuels)	29.81
Natural Gas and Petroleum Liquids	0.25
Nuclear	1.59
Biomass (and biofuels)	0.89
Geothermal	0.92
Hydroelectric	0.67
Solar	24.34
Wind	23.37
Landfill Gas	1.37

Energy Subsidies not related to Electricity	**Subsidy per million BTUs**
Coal	0.04
Refined Coal	1.35
Natural Gas and Petroleum Liquids	0.03

[2] *Government Spending Under Cover,* Lily Batchelder and Eric Toder, prepared for the Center for American Progress' "Doing What Works" project, April, 2010, p.1.

[3] Energy Information Administration, Federal Financial Interventions and Subsidies in Energy Markets 2007, pp. xvi and xviii.

Ethanol/Biofuels	5.72
Geothermal	0.02
Solar	2.82

If Congress determines that fiscal incentives for certain types of energy are appropriate, it is crucial that the magnitude of the "subsidy" be understood by reference to the amount of energy produced. If government decides to provide a specific energy source with a unique incentive, for broad societal reasons, it should certainly not do so at the expense of other energy supply sources; such an approach will likely result in less total energy supplies rather than more.

Finally, as noted, it is very important to distinguish between tax "incentives" for specific industries or fuels and tax rules not unique to a specific industry. Several such items in the President's Budget are often mischaracterized as "subsidies for oil and gas companies," including the Section 199 domestic production activities deduction, percentage depletion for non-integrated oil and gas producers, and the treatment of intangible drilling costs. None of these is conceptually unique to the oil and gas industry or even to the energy industry, and thus we do not believe they represent a special "subsidy" only for oil and gas.

Section 199 - Domestic Production Activities Deduction

The largest is the domestic production activities deduction--sometimes referred to as the domestic manufacturing deduction.

Under the American Jobs Creation Act of 2004, Congress sought to create and retain U.S. jobs throughout the critical domestic production and manufacturing sectors, including jobs in the U.S. oil and natural gas industry.

Section 199 effectively reduced the tax rate in phases over several years for all qualified domestic production and manufacturing income.[4] *Qualified activities include, among others, the production of computer software, electricity, water, sound*

[4] The provision was "phased in", starting with the approximate equivalent of a 1% rate reduction for 2005 and 2006, a 2% rate reduction for 2007-2009, and finally the 3% reduction beginning in 2010. In the Emergency Economic Stabilization Act of 2008, the oil and gas industry was singled out for special adverse treatment by freezing the provision at the equivalent of the 2% rate reduction for that industry, while beginning in 2010, all other producers and manufacturers began receiving the 3% reduction.

recordings, and films, the manufacture of tangible personal property, and construction, architectural, and engineering services. Characterizing it as an "oil and gas company subsidy" is simply false and repealing it only for U.S. oil and natural gas producers and refiners would single out one industry for unjust, punitive and arbitrary treatment and discourage critical new oil and gas investments in the U.S.[5]. Given the current conditions for the U.S. refining business, and the call of many in Congress for increased refinery capacity, it is perplexing that some members of Congress would continue to propose increasing taxes on such investments.

Investments in the upstream sector (i.e., oil and gas exploration and development projects), which require a long term commitment of massive amounts of capital, would also be adversely affected.

Adverse changes to tax laws not only reduce the value of investments made in reliance on those rules, after the fact, but inject even more uncertainties and risks for future projects. Increasing taxes on U.S. oil and gas investments will result in less domestic investment, and ironically, even greater reliance on foreign imports.[6]

According to a recent study by PricewaterhouseCoopers, the oil and natural gas industry supported over 9 million American jobs in 2007.[7] The total value added contribution to the U.S. economy was over $1 trillion, or 7.5% of the gross national product. Encouraging greater investment in domestic oil and gas operations in exactly the same way as for all other domestic manufacturers and producers helps keep more Americans working in these valued occupations.

U.S. energy security is also clearly enhanced by greater investment in domestic oil and gas activities. According to projections by the Energy Information Administration (EIA) in its Annual Energy Outlook 2010, domestic crude oil production is expected

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[5] In the U.S., the most promising exploration and development projects are increasingly found offshore. According to the Energy Information Administration, it costs U.S.-based oil and gas companies about 20 percent more to explore for and produce a barrel of oil or equivalent natural gas in the United States than abroad.

[6] See the Congressional Research Service's *CRS Report for Congress: Energy Tax Policy: History and Current Issues, Updated April 1, 2008*, which, in addressing the effect of the Section 199 repeal, states: "Domestic oil and gas output would be lower, and imports would be higher than they otherwise would be without the tax increase." Page 20.

[7] *The Economic Impacts of the Oil and Natural Gas Industry on the U.S. Economy: Employment, Labor Income, and Value Added*, PricewaterhouseCoopers, September, 2009.

to rise to just over 6 million barrels per day by about 2020 and remain just above that level through 2035. Increased access to available resources and a reliable fiscal and regulatory investment framework will be critical to sustaining domestic production over the long term and reducing U.S. reliance on imported oil.

Retaining §199 for the domestic oil and gas industry, and keeping those investments on a par with all other domestic manufacturing and production activities, will help increase domestic oil and gas investment and jobs, and reduce foreign import requirements.

However, if Congress determines that it must raise revenues for other priorities, it should consider an even handed approach to modifying the application of §199, rather than singling out one industry for adverse treatment, and "suggesting" that industry was somehow uniquely receiving special tax treatment that in fact applies to all other domestic producers and manufacturers.

Percentage Depletion for Non-Integrated Oil and Gas Producers

This provision is not even applicable to ExxonMobil, since we are an integrated producer of oil and natural gas under the specific definitions of the Internal Revenue Code. However, we would simply note that percentage depletion is also not unique to the oil and gas industry; it applies to all minerals. If there is any unique feature to percentage depletion for oil and natural gas, it is the unique restrictions for oil and gas (i.e., production by integrated companies does not qualify and production by non-integrated producers is limited to the equivalent of 1000 barrels per day). No other mineral has such limits. Consistent with the notion that Congress should not "pick winners and losers", we would simply recommend that if Congress desires to reduce or eliminate percentage depletion as a special "tax subsidy", it should be done in an even handed way, not singling out one mineral or one type of producer for uniquely adverse treatment. Again, to be clear, this is not a provision that ExxonMobil even qualifies for, but we do believe a basic tax principle is involved that tax writers should follow.

Intangible Drilling Costs

This provision is also often cited as a "subsidy" for oil and gas producers when, again, there are parallels to expenditures in other industries that are actually even more favorably treated. The majority of the so-called "intangible drilling costs" are in fact labor costs associated with the drilling of exploratory and development oil and gas wells. The drilling of wells is akin to research costs incurred in other industries. In the oil and gas industry, discovering commercial quantities of oil or gas is not a certainty, and even if a well is successful, there is no certainty regarding the amount of the production over the life of the well. This is analogous to a drug company researching and developing a new or replacement drug, or a high-tech company researching and developing a new software product. Those costs are generally expensed in their entirety, and often additionally qualify for a research tax credit. The well drilling costs do not qualify for any research credit, and for integrated oil and gas companies, only 70% of such costs are deductible as incurred, with the remaining 30% being capitalized and recovered over a 5 year period. Again, one can "label" this as a "subsidy" for oil and gas companies, but in fact it is quite similar to costs more favorably treated in other industries. Thus, if Congress wants to "cut back" on such items, we believe it should not do so by singling out one type of taxpayer or industry for uniquely adverse treatment of similar costs.

9. **How many deep water oil rigs does your company 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?**

How many deep water oil rigs does your company operate in the Gulf of Mexico; how many does it operate around the world? In which countries are these rigs located?

ExxonMobil operates one rig in the Gulf of Mexico in >500 ft. water depth. Globally, as of today (6/4/10), ExxonMobil operates 6 drilling rigs in >500 ft water depth. The drilling rigs are located in the United States (2 – one in the GOM and one in California), Angola (2), Equatorial Guinea (1), and the Philippines (1).

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?

The constrained time period for responding to this question particularly does not permit a detailed country-by-country comparative analysis of tax, royalty and regulatory policies. Our international energy development investment projects, however, are responding to authoritative projections of increased global energy demand in coming decades. The International Energy Agency (IEA) predicts that the world's total energy demand will be significantly higher, as much as 40 percent higher, in 2030 than it was in 2007 — even considering the current global economic downturn. To meet the enormous and growing demand for energy, the industry must operate at a vast scale — and over a long time horizon. Time related to major investments in the oil and natural gas industry is not measured in business cycles; it is measured in generations. The energy we use today is the product of investment decisions and technical work that were undertaken many years or even decades ago. Sound government policies have played an important role.

The IEA also now estimates that the cumulative investment in global energy-supply infrastructure needed to the year 2030 will exceed $25 trillion (over period 2008–2030). Such investments will only be made, however, if governments establish stable and sensible fiscal and regulatory frameworks based on free market principles. To the extent that the world's nations and regions embrace such policies, they will more likely attract the investments needed to safeguard their long-term energy security and economic aspirations.

The energy industry — and the global economy — will need governments to encourage free trade, uphold the rule of law and build the sensible tax, legal, and regulatory frameworks that allow for long-term planning and investment to take place. Businesses and governments must work to build energy policies that maximize the use of markets and allow market prices to drive the selection of solutions.

Within ExxonMobil, we are demonstrating our commitment and endurance by pursuing plans to invest $25 billion to $30 billion annually over the next five years on energy projects. These are record investment levels for us. Whether to proceed to invest in the development of individual projects entails careful analyses of many factors, including risked resource potential, technical challenges and costs, as well as the policy foundations, fiscal regimes, and investment stability of host nations.

A specific aspect of your question concerns the impact of varying national tax regimes on the investments we make. Stable tax and regulatory policies that provide for competition on a level playing field play a significant role in the development of resources, both conventional and unconventional. Current tax rules in the United States, most of which have been in place and relied upon for many years in making energy investment and development decisions, have to date largely met the test of stability and have not discouraged investment. However, proposals to change these provisions adversely would, if adopted, be counterproductive and result in certain development projects not being undertaken. Severely adverse regulatory changes could also jeopardize these opportunities.

Similar considerations to those described above apply wherever ExxonMobil has resource development opportunities. ExxonMobil is committed to development of resources outside the U.S. where the economics are viable. Our financial capacity generally permits the development of all viable projects, both within and outside the U.S. We have a successful history of working with governments and partners around the world to help deliver the most value from hydrocarbon resources. By bringing together expert people, proprietary technology and superior operations and project management capability, we deliver on our pledge of performance.

10. What is the maximum worst-case spill scenario ExxonMobil 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 blow outs.

Our experience in the Exxon Valdez oil spill proved beyond doubt that money spent for prevention is far more effective than money spent on response. That being said,

ExxonMobil is prepared to meet all of the commitments in its permits, including those involving a worst case scenario. All worst case discharge scenarios are completed in accordance with the Oil Pollution Act of 1990, which requires an owner or operator to respond to the "maximum extent practicable."

As detailed in our Regional OSRP, ExxonMobil is supported by Tier 3 spill response and cleanup cooperatives, including Marine Spill Response Corporation and Clean Gulf Associates to provide equipment and personnel.

11. **What dispersants does ExxonMobil 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?**

ExxonMobil has an inventory of approximately 46,000 gallons of approved dispersants (Corexit 9500) at various locations in the U.S. including Louisiana, Mississippi, California and Alaska.
This product was selected after fifteen years of test results of a variety of different dispersants indicated Corexit 9500 is a consistently effective product for a wide range of oils (crude and fuel oils) and is also effective as oil properties change (also referred to as weathers) after a spill.

In the U.S., the National Oil and Hazardous Substances Pollution Contingency Plan (NCP) directs the U.S. EPA to prepare a list of dispersants that may be used during a spill. Assuming adequate availability and positive results from field testing, changing from one NCP-listed dispersant to another should pose little logistical challenges. To use dispersants not included on the NCP list would require government approval and testing.

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

ExxonMobil scientists have made contributions to the field of oil spill dispersion through 40 years of research studies on new and better ways to mitigate the effects of oil spills through application of dispersants. This includes formulating the first dispersant product intended for safe use in the marine environment.

ExxonMobil researchers continue to work at improving the performance and understanding of the use of dispersants, both from an efficacy and toxicological standpoint.

An objective of oil spill response strategy planning is to minimize the environmental impact of the incident. Dispersants are one of several options/tools available to combat an oil spill. Dispersants are favored in large-volume offshore spill scenarios due to the fact they can rapidly treat large areas and protect sensitive shorelines, near shore areas, and marshes. Dispersants transform oil into a form that facilitates rapid biodegradation of the oil, and allows the quickest overall recovery of the ocean environment.

Keeping oil off the water surface with dispersants greatly reduces exposure to birds and marine mammals that might encounter persistent oil and protects shorelines and marshes.

The following is a reference list of publicly available information on dispersant use and effectiveness

Belore, R.C., Trudel, K., Mullin, J.V., and Guarino, A., "Large-scale Cold Water Dispersant Effectiveness Experiments with Alaskan Crude Oils and Corexit 9500 and 9527 Dispersants," *Marine Pollution Bulletin* 58 pgs. 118-128, (2009).

Clark, J., Becker, K., Venosa, A., and Lewis, A., "Assessing Dispersant Effectiveness for Heavy Fuel Oils Using Small-Scale Laboratory Tests," 2005 International Oil Spill Conference, (2005).

Henry, C., "Review of Dispersant Use in the U.S. Gulf of Mexico Waters Since the Oil Pollution Act of 1990," 2005 International Oil Spill Conference, (2005).

Li, Z., Lee, K., King, T., Boufadel, M.C., and Venosa, A., "Assessment of Chemical Dispersant Effectiveness in a Wave Tank under Regular non-Breaking and Breaking Wave Conditions," *Marine Pollution Bulletin* 56 pgs 903 – 912, (2008).

Li, Z., Lee, K., King, T., Boufadel, M.C., and Venosa, A., "Evaluating Crude Oil Chemical Dispersion Efficacy in a Flow-through Wave Tank under Regular non-Breaking Wave and Breaking Wave Conditions," *Marine Pollution Bulletin* 58 pgs 735 – 744, (2009).

SL Ross Environmental Research, "Final Report: Dispersant Effectiveness Testing on Viscous, U.S. Outer Continental Shelf Crude Oils," Final Report to U.S. Department of the Interior Minerals Management Service, http://www.mms.gov/tarprojects/514.htm, (2006).

Trudel, B.K., Belore, R.C., Guarino, A., Lewis, A., Mullin, J., "Determining the Viscosity Limits for Effective Chemical Dispersion: Relating OHMSETT Results to those from Tests At-Sea," 2005 International Oil Spill Conference, (2005).

Trudel, K., and Belore, R., "Final Repot: Correlation of OHMSETT Dispersant Tests with At-Sea Trials: Supplemental Tests," Report to the U.S. Department of the Interior Minerals Management Service, http://www.mms.gov/tarprojects/526.htm, (2006).

13. Does ExxonMobil 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 ExxonMobil have a financial interest in or other relationship with any companies that manufacture or sell an EPA-approved dispersant?

While it is likely that a number of dispersants on the Government's approved list would be effective in dispersing South Louisiana crude oil, ExxonMobil selected Corexit 9500 after fifteen years of test results of a variety of different dispersants indicated Corexit 9500 is a consistently effective product for a wide range of oils (crude and fuel oils) and is also effective as oil properties change (also referred to as weathers) after a spill.

ExxonMobil Chemical supplies a product (Isopar M), which is a component used in the manufacture of Corexit 9500, manufactured by Nalco.

ExxonMobil is selling about the same volume of Isopar M as it was prior to the spill; however, sales have been diverted to the Gulf for the spill. Once the spill response is over, we hope to be able to resume sales to our long-standing customer base. There have been no price increases since those communicated prior to the oil spill.

ExxonMobil is a customer of Nalco, the manufacturer of Corexit 9500.

14. **In your response to post-hearing questions posed by this Committee in 2008, ExxonMobil stated that it believed "The United States needs to allow the oil and gas industry to bring to bear the full range of its technological advances to develop the fullest extent [of] the country's domestic resources." Given the current spill in the Gulf of Mexico, does your company still stand by this unqualified endorsement of all technologically possible exploration, no matter what the risk? Are there some domestic resources that should be off limits because the environmental and economic risks associated with a spill are too great?**

The quotation you cite to our written response to the Committee in September 2008 was not complete. A fuller response was provided to your question concerning assertions that federal lessees were not developing leases in a timely fashion, and proposals for so-called "use it or lose it" penalties — which were made in opposition to Congressional and Executive Branch decisions that year to lift longstanding moratoria on OCS access. The relevant paragraphs from our answer containing the quoted citation are as follows:

> *"ExxonMobil believes that* ***the United States needs to allow the oil and gas industry to bring to bear the full range of its technological advances to develop to the fullest extent the country's domestic resources*** *to help meet the nation's growing demand for energy and sustain our economic growth. Legislative and regulatory actions that would suspend new leasing to most or all lease holding companies, add costs, and undermine contract sanctity, would prevent new investment and shrink the nation's energy supply. Oil and gas is a global business and*

the United States already has the largest barriers to its own energy resources. It seems unconscionable to consider policies that would make a bad situation worse sending more investment and jobs overseas and reducing energy security.

The problem is not that companies are ignoring the leases they have but, rather, that companies do not have access to some of the most promising federal acreage and, as a result, are struggling to find new oil and gas supplies from the limited offerings of the last 10 years. The United States now imports approximately 60 percent of its supply from other countries (many of whom allow exploration and production activities on substantially all of their lands) while prohibiting access to nearly 90 percent of the acreage off of the East and West coasts and Gulf of Mexico. The continuation of ill-advised policies that preclude access to prospective acreage will accelerate the current decline in domestic oil and gas production. It also forgoes the building of a more diverse domestic supply to maximize the United States' energy security.

Our economy needs affordable energy supplies to compete in the global marketplace. Therefore we strongly believe that our companies must be allowed access to areas that may have the potential to produce the oil and natural gas consumers will need. The oil and natural gas from federal leases that are producing today are a result of the foresight of Congress in years past. The appropriate question to be answered by this Congress is "where do we want to be ten years from now?"

The full answer that we provided — supporting policies to allow our industry to bring forth ***the full range of its technologies to sustain American economic growth*** *— is relevant not only to the oil and natural gas industry, but to all American industries, from pharmaceuticals to software developers. We therefore take exception to your question's characterization of our statement then as an "unqualified endorsement of all technologically possible exploration, no matter what the risk." The fact is that the imperative of safe operations is a fundamental value of our company. We are*

continually and broadly evaluating "risks" each day in our operations to achieve the highest level of safety performance, while competently producing the energy that sustains modern and developing nations around the world. We are also continually advancing the development of new exploration, development, production, refining and transportation technologies to reduce risk and thereby optimize the potential for economic growth.

Enclosed is information concerning ExxonMobil's Operations Integrity Management System ("OIMS"), which is the operational cornerstone of our commitment to managing our Safety, Security, Health and Environmental performance. Recognizing the inherent risks in our business, we have established and implemented clearly defined policies and practices, with rigorously applied management systems to deliver results. All of our operating organizations are required to maintain the systems and practices needed to conform to the Expectations described in the OIMS Framework.

As to the value judgment of whether certain domestic energy resources should be "off-limits" because of environmental risks, we recognize an array of state and federal land use designations reflect this weighing of risks and economic uses, from national wildlife refuges to state parks. Some of these designations allow for limited energy development, some do not. These judgments are the province of government. As they are considered, we seek to inform policymakers of our industry's technological advances and core competencies, so that they may appropriately evaluate the potential benefits and risks of energy development.

15. What recommendations does ExxonMobil have for improving the safety of offshore drilling and the efficacy of oil spill response?

ExxonMobil supports continuous improvement in safety and drilling practices, and learning from the BP incident. To this end we have participated in the recent studies by the API and are generally supportive of API's conclusions.

All parties should withhold specific recommendations until the full investigation is completed and the facts that led up to the event are understood. ExxonMobil looks forward to a transparent and timely investigation, and seeks an open dialogue with investigators and regulators on recommendations.