

TESTIMONY OF JAMES J. MULVA

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CONOCOPHILLIPS

BEFORE THE

COMMERCE, SCIENCE & TRANSPORTATION COMMITTEE

AND THE

ENERGY AND NATURAL RESOURCES COMMITTEE

ON

WEDNESDAY, NOVEMBER 9, 2005

INTRODUCTION

GOOD MORNING, MEMBERS OF THE ENERGY AND COMMERCE COMMITTEES. MY NAME IS JAMES MULVA, AND I SERVE AS CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF CONOCOPHILLIPS.

CONOCOPHILLIPS CURRENTLY SERVES AS CHAIR OF THE AMERICAN PETROLEUM INSTITUTE BUT MY COMMENTS TODAY REFLECT ONLY THE VIEWS OF CONOCOPHILLIPS.

CONOCOPHILLIPS APPRECIATES THE INVITATION TO TESTIFY AND RESPOND TO YOUR QUESTIONS REGARDING THE ENERGY SITUATION FACING THE UNITED STATES TODAY. CONOCOPHILLIPS FULLY APPRECIATES YOUR AND THE AMERICAN PUBLIC'S CONCERNS REGARDING SUPPLY AVAILABILITY AND COST. IN FACT, WE WELCOME THE OPPORTUNITY TO DEMONSTRATE WHAT CONOCOPHILLIPS HAS ACCOMPLISHED, AND WHAT WE WILL CONTINUE TO ACHIEVE TO SUPPLY THE ENERGY REQUIRED IN THE MARKET PLACE.

IN THIS STATEMENT AND WHEN ANSWERING YOUR QUESTIONS TO THE BEST OF MY ABILITY, I WILL FROM TIME TO TIME EXPRESS MY OPINIONS, BELIEFS AND PREDICTIONS ABOUT FUTURE EVENTS. AS I'M SURE YOU APPRECIATE THESE FUTURE EVENTS ARE SUBJECT TO

RISKS AND UNCERTAINTIES, MANY OF WHICH ARE DESCRIBED IN OUR PUBLIC FILINGS, WHICH I REFER YOU TO.

LET ME BEGIN BY GIVING YOU A BRIEF DESCRIPTION OF OUR COMPANY. CONOCOPHILLIPS IS AN INTERNATIONAL, INTEGRATED ENERGY COMPANY, HEADQUARTERED IN HOUSTON, TEXAS AND OPERATING IN 40 DIFFERENT COUNTRIES WITH YEAR-TO-DATE SEPTEMBER 2005 ANNUALIZED REVENUES OF \$175 BILLION AND ASSETS OF \$104 BILLION. WE ARE THE THIRD LARGEST INTEGRATED ENERGY COMPANY IN THE UNITED STATES, BASED ON MARKET CAPITALIZATION, OIL AND GAS PROVED RESERVES AND PRODUCTION, AND THE SECOND LARGEST REFINER IN THE UNITED STATES. BUT A COMPANY IS MORE THAN ITS REVENUES AND ASSETS – IT IS ITS EMPLOYEES, SHAREHOLDERS AND THE COMMUNITIES IT TOUCHES. WE ARE COMPRISED OF APPROXIMATELY 35, 800 EMPLOYEES, WHO OWN ABOUT 5% OF OUR SHARES THROUGH COMPANY-SPONSORED BENEFIT PLANS. APPROXIMATELY 83% OF CONOCOPHILLIPS' STOCK IS OWNED BY MORE THAN 2,000 DIFFERENT MUTUAL FUNDS, REPRESENTING INVESTMENTS BY A WIDE ARRAY OF INDIVIDUALS AND BUSINESSES, AS WELL AS NUMEROUS PRIVATE AND PUBLIC PENSION PLANS.

OUR INVESTORS EXPECT A COMBINATION OF GROWTH AND RETURNS FROM OUR COMPANY. OUR JOB IS TO MEET THESE EXPECTATIONS BY OPERATING OUR FACILITIES WELL AND HOLDING COSTS DOWN WHEN MARKETS ARE STRONG OR SOFT, AND BY EXPANDING OUR INVESTMENTS WHEN MARKETS SIGNAL THAT NEW SUPPLIES ARE NEEDED. FOR THE LAST 20 YEARS, THE PETROLEUM INDUSTRY HAS HAD SUB-PAR RETURNS, WHICH LIMITED THE CAPITAL AVAILABLE FOR INVESTMENT. WITHIN THE PAST TWO YEARS, THE PRICE SIGNALS HAVE ENCOURAGED THE INDUSTRY TO RECALIBRATE THE INVESTMENT DIAL TO HIGHER, MORE AGGRESSIVE LEVELS OF SPENDING. UNTIL RECENTLY, ACCELERATED LEVELS OF INVESTMENT WERE NOT ENCOURAGED BECAUSE GROWING GLOBAL DEMAND COULD BE MET LARGELY FROM SPARE OIL PRODUCTION CAPACITY IN RUSSIA AND IN OPEC COUNTRIES, AND BY TAKING ADVANTAGE OF SPARE GLOBAL REFINING CAPACITY AND SPARE CAPACITY IN OILFIELD SERVICES AND SUPPLIES. THAT SITUATION HAS CHANGED, AND TODAY THE INDUSTRY CAN OFFER THE PROSPECTS OF PROFITABLE GROWTH AS IT STEPS UP ITS INVESTMENT IN HUGE, COMPLEX ENERGY PROJECTS AROUND THE WORLD. WE FEEL CONFIDENT THAT THIS RESPONSE WILL LEAD TO A MODERATION OF PRICES AND INCREASED ENERGY SECURITY.

GLOBAL ENERGY CHALLENGES - SUPPLY / DEMAND

YOU HAVE ASKED US HERE TODAY TO EXPLAIN THE RECORD HIGH PRICES RECENTLY OBSERVED AT THE GASOLINE PUMP AS WELL AS PRICES OF OTHER FUELS SUCH AS NATURAL GAS AND HOME HEATING OIL. THE HIGHER PRICES WE SEE TODAY WERE MANY YEARS IN THE MAKING.

CRUDE OIL PRICES ARE THE MAIN DRIVER OF GASOLINE AND OTHER PRODUCT PRICES, AS NOTED IN A RECENT FEDERAL TRADE COMMISSION REPORT. THE REPORT INDICATED THAT OVER THE LAST 20 YEARS, CHANGES IN CRUDE OIL PRICES HAVE EXPLAINED 85 PERCENT OF THE CHANGES IN THE PRICE OF GASOLINE IN THE UNITED STATES. CRUDE OIL PRICES ARE DETERMINED IN THE INTERNATIONAL MARKET BY THOUSANDS OF ENTITIES BASED ON THE MARKET CONDITIONS THAT DAY.

GLOBAL CRUDE PRICES HAVE BEEN RISING SINCE 2002 AS A RESULT OF THE U.S.-LED GLOBAL ECONOMIC RECOVERY, LEADING TO EXCEPTIONAL OIL DEMAND GROWTH AND RAPID INDUSTRIAL GROWTH IN THE DEVELOPING ECONOMIES OF ASIA. OVER THE LAST DECADE, OIL DEMAND IN CHINA AND INDIA DOUBLED, AND IS EXPECTED TO DOUBLE AGAIN BY 2020. STRONG U.S. AND GLOBAL ECONOMIC GROWTH ARE CERTAINLY DESIRABLE BUT THE

CONSEQUENCE OF STRONG GROWTH IS A RISE IN THE DEMAND FOR COMMODITIES, INCLUDING OIL. IF INCREMENTAL SUPPLIES ARE NOT IMMEDIATELY FORTHCOMING, THEN PRICES RISE TO ENCOURAGE NEW INVESTMENTS, AND PRICES HAVE INDEED RISEN FOR MOST COMMODITIES, INCLUDING OIL, IN RECENT YEARS.

THIS EXCEPTIONAL DEMAND GROWTH OVER THE LAST FEW YEARS HAS LEFT LITTLE SURPLUS CRUDE OIL PRODUCTION CAPACITY AVAILABLE IN THE WORLD TODAY. CONCERN ABOUT GEOPOLITICAL RISK IN VARIOUS OIL-PRODUCING COUNTRIES IN THE FACE OF LIMITED SPARE PRODUCTION CAPACITY HAS HELPED DRIVE OIL PRICES HIGHER. WHILE CONOCOPHILLIPS DOESN'T EXPECT THE PRICES WE SEE TODAY TO BE SUSTAINED, WE DO WANT TO GIVE YOU AN APPRECIATION OF THE CHALLENGES THAT LIE AHEAD IN SUPPLYING THE U.S. AND THE WORLD'S ENERGY NEEDS.

OUR TYPICAL EXPLORATION AND DEVELOPMENT PROJECT COSTS SEVERAL BILLION DOLLARS UP FRONT AND DOES NOT GENERATE PRODUCTION OR REVENUES FOR 7-8 YEARS. OUR PROJECTS ALSO HAVE HIGH TECHNICAL, CAPITAL, POLITICAL AND PRICE RISKS. COMMODITY PRICES HAVE ALWAYS BEEN CYCLICAL IN NATURE AND WE CAN'T INVEST BASED ON THE ASSUMPTION THAT THE PRESENT PRICE SITUATION WILL PERSIST WHEN OUR PROJECTS OFTEN LAST

FOR 30 YEARS. SO THE FIRST CHALLENGE IS INVESTING THESE LARGE SUMS IN AN ATMOSPHERE OF GREAT PRICE UNCERTAINTY.

ANOTHER CHALLENGE IS THAT IT TAKES AN EVER INCREASING AMOUNT OF CAPITAL TO KEEP PRODUCTION IN THE MATURE OIL AND GAS FIELDS IN THE UNITED STATES AND THE NORTH SEA FROM DECLINING. WE WILL EVENTUALLY LOSE THIS BATTLE.

AFTER TWO DECADES OF DECLINING COSTS, OUR INDUSTRY HAS EXPERIENCED RAPID COST INCREASES OVER THE LAST FIVE YEARS. SOME OF THIS INCREASE IS A REFLECTION OF HIGH STEEL PRICES AND THE HIGH LEVEL OF INDUSTRY SPENDING, WITH THE OIL SERVICES INDUSTRY STRUGGLING TO KEEP PACE. HOWEVER, COSTS ALSO ARE RISING BECAUSE INTERNATIONAL OIL COMPANIES DON'T HAVE ACCESS TO LOW-COST RESERVES, PRIMARILY BECAUSE HOST GOVERNMENTS, INCLUDING THE UNITED STATES, DON'T ALLOW ACCESS TO RESERVES OR MAKE THE TERMS TOO UNATTRACTIVE. THE OPPORTUNITIES AVAILABLE TO US TEND TO BE MORE REMOTE, COMPLEX, OR INVOLVE LOWER QUALITY CRUDE OIL THAT REQUIRES HIGHER PRICES TO BE ECONOMICALLY PRODUCED.

RESOURCE ACCESS IS A PARTICULAR PROBLEM FOR NATURAL GAS IN THE UNITED STATES, SINCE THE MOST HIGHLY PROSPECTIVE AREAS

ARE OFF LIMITS FOR DRILLING OR THE PERMITTING REQUIREMENTS ARE SO ONEROUS THAT THE PROSPECT BECOMES UNECONOMIC. GIVEN INDUSTRY DECLINE RATES OF 30% PER YEAR IN EXISTING LOWER 48 NATURAL GAS WELLS, AND THE LONG LEAD TIMES IN LIQUEFIED NATURAL GAS (LNG) AND ARCTIC GAS PIPELINES, THE UNITED STATES WILL BE SHORT OF GAS IN THE NEAR-TERM. THE ONLY WAY TO SOLVE THIS PROBLEM IS BY MAKING MORE ACREAGE AVAILABLE, ESPECIALLY IN THE EASTERN GULF OF MEXICO.

ANOTHER CHALLENGE IS THAT MUCH OF THE INVESTMENT REQUIRED IN ENERGY TODAY IS FOR ENERGY INFRASTRUCTURE IN CONSUMING COUNTRIES, SUCH AS REFINERIES, LIQUEFIED NATURAL GAS RECEIVING TERMINALS, AND PIPELINES. IN THE UNITED STATES, NIMBY (NOT-IN-MY-BACK-YARD) SENTIMENTS HAVE CAUSED COSTLY DELAYS AND EVEN THE ABANDONMENT OF THESE IMPORTANT INFRASTRUCTURE PROJECTS.

THE FINAL CHALLENGE I WOULD LIKE TO RAISE IS THAT THE PETROLEUM INDUSTRY FOR THE LAST 20 YEARS HAS HAD SUB-PAR RETURNS, WHICH LIMITED THE CAPITAL AVAILABLE FOR INVESTMENT. BETWEEN THE DIFFICULT YEARS OF 1990 AND 2002, THE AVERAGE RETURN ON EQUITY FOR THE PETROLEUM INDUSTRY WAS 11.3%, LOWER ON AVERAGE THAN THE 12.6% RETURN FOR THE S&P

500. THE REFINING & MARKETING SECTOR HAS AN EVEN LOWER HISTORICAL RETURN ON CAPITAL THAN THE TOTAL PETROLEUM SECTOR. BETWEEN 1990 AND 2002, THE REFINING AND MARKETING SECTOR HAD A RETURN ON CAPITAL EMPLOYED OF 5.0% VERSUS 7.1% FOR THE TOTAL PETROLEUM INDUSTRY.

THE REFINING SECTOR HAS BEEN PARTICULARLY CHALLENGED BECAUSE SO MUCH OF THE CAPITAL SPENDING HAS BEEN DIRECTED TOWARD ON SITE ENVIRONMENTAL NEEDS AND THE PRODUCTION OF CLEAN FUELS. IN ADDITION TO INVESTING HEAVILY TO MEET FEDERALLY MANDATED FUEL SPECIFICATIONS, REFINERIES HAVE PUT SUBSTANTIAL CAPITAL INTO ADDRESSING STATE AND LOCAL BOUTIQUE FUEL REQUIREMENTS, WHICH HAVE ADDED TO THE COST OF PRODUCING GASOLINE AND REDUCED THE FUNGIBILITY OF PRODUCT.

WE ALSO CANNOT IGNORE THE NEGATIVE IMPACT THAT FEDERAL AND STATE REGULATORY PROCESSES HAVE HAD ON DISCOURAGING NEW GRASS ROOTS REFINERIES. THE PROCESS FOR SITING AND SECURING THE MANY PERMITS NECESSARY FOR A REFINERY ARE LENGTHY AND DIFFICULT. WE HAVE FOUND THIS TO BE THE CASE IN OUR ON-GOING EFFORTS TO EXPAND REFINERY CAPACITY AT EXISTING LOCATIONS. HISTORICALLY, THERE HAS BEEN

SUBSTANTIAL EXCESS REFINING CAPACITY OUTSIDE OF THE UNITED STATES, ALLOWING FOR RELATIVELY LOW-PRICED PRODUCT IMPORTS. GIVEN STRONG DEMAND GROWTH OF RECENT YEARS, THE AMOUNT OF EXCESS CAPACITY HAS BEEN REDUCED, WHICH IS SENDING PRICE SIGNALS GLOBALLY TO EXPAND CAPACITY. GOVERNMENTS ALSO NEED TO RECOGNIZE THE IMPORTANCE OF INTERNATIONAL TRADE IN OUR INDUSTRY, AND SHOULD AVOID DOING ANYTHING THAT MIGHT IMPEDE THE FREE FLOW OF CRUDE OIL, REFINED PRODUCTS, CAPITAL AND PEOPLE.

GIVEN THE ENORMOUS SIZE AND RISK OF THE INVESTMENTS OUR INDUSTRY IS CONTEMPLATING, WE NEED AN ADEQUATE RETURN TO BRING THESE INVESTMENTS TO FRUITION. UNFORTUNATELY, RETURNS IN OUR INDUSTRY ARE HIGHLY CYCLICAL. TODAY, WE ARE IN AN UP-CYCLE BUT WE SAW OUR LAST DOWN-CYCLE AS RECENTLY AS 1998 WHEN CRUDE OIL PRICES FELL TO \$11 PER BARREL. THERE WILL UNDOUBTEDLY BE ANOTHER DOWN CYCLE IN THE FUTURE, AND WE HAVE TO BUILD THE FINANCIAL STRENGTH TO WITHSTAND THESE EVEN AS WE INCREASE SUBSTANTIALLY OUR CAPITAL EMPLOYED IN THIS SECTOR.

WE WANT YOU TO KNOW THAT DESPITE THESE ENORMOUS CHALLENGES OUR INDUSTRY HAS COLLECTIVELY INVESTED NEARLY

\$380 BILLION IN ENERGY SUPPLIES AND INFRASTRUCTURE OVER THE LAST FIVE YEARS.

IMPACT OF HURRICANES

MUCH HAS BEEN WRITTEN ABOUT THE DEVASTATION OF HURRICANES KATRINA AND RITA AND HOW THEY DISRUPTED PEOPLES' LIVES. THE STORMS ALSO PROVIDED A WAKE UP CALL ON THE FRAGILE BALANCE IN GLOBAL ENERGY SUPPLY AND DEMAND AND THE VULNERABILITY OF THIS COUNTRY'S ENERGY INFRASTRUCTURE IN THE GULF COAST AREA. THE OFFICE OF MANAGEMENT AND BUDGET RECENTLY ESTIMATED THAT THE ENERGY INDUSTRY WILL SPEND SOMEWHERE BETWEEN \$18 BILLION AND \$31 BILLION TO BRING OPERATIONS BACK ON LINE.

HEAVY DAMAGE FROM THE TWO HURRICANES ALL BUT CLOSED DOWN THE REFINERY INFRASTRUCTURE IN THE REGION. IMMEDIATELY AFTER THE STORMS, ABOUT A THIRD OF TOTAL U.S. REFINING CAPACITY WAS NOT IN PRODUCTION. TODAY, ABOUT 800 THOUSAND BARRELS PER DAY, OR ABOUT 5% OF TOTAL U.S. REFINING CAPACITY, IS STILL NOT OPERATING. THAT INCLUDES SOME 247,000 BARRELS PER DAY FROM CONOCOPHILLIPS' ALLIANCE REFINERY, SOUTH OF NEW ORLEANS, WHICH SUFFERED SEVERE FLOODING. WE

EXPECT TO SEE ALLIANCE BACK UP IN PARTIAL OPERATION BY YEAR'S END.

SOME 100 OFFSHORE PRODUCTION PLATFORMS WERE DESTROYED BY THE STORMS. AFTER HURRICANE RITA, NEARLY ALL OF THE CRUDE OIL PRODUCTION IN THE GULF OF MEXICO WAS SHUT IN, AS WAS 75% OF THE INDUSTRY'S NATURAL GAS PRODUCTION. TODAY ABOUT 800 THOUSAND BARRELS PER DAY OR ABOUT HALF OF FEDERAL GULF OF MEXICO CRUDE OIL PRODUCTION, AND 4.7 BILLION CUBIC FEET PER DAY, OR NEARLY HALF OF THE NATURAL GAS PRODUCTION REMAIN SHUT IN. ADDITIONALLY, MANY OTHER SECTORS OF ENERGY, INCLUDING UTILITIES AND PIPELINES SUFFERED SIGNIFICANT DAMAGE FROM THESE STORMS. WE ARE PLEASED TO REPORT THAT CONOCOPHILLIPS WAS ABLE TO RESTORE 100% OF ITS OPERATED PRODUCTION WITHIN FIVE DAYS AFTER HURRICANE KATRINA MADE LANDFALL, AND 97% OF ITS OPERATED PRODUCTION WITHIN 10 DAYS AFTER HURRICANE RITA MADE LANDFALL.

RIGHT NOW, THE FOCUS OF ATTENTION IS SUPPLY SECURITY AND PRICE BUT WHEN WE LOOK BACK, IT WILL BE RECOGNIZED THAT THE ENERGY INDUSTRY DID A COMMENDABLE JOB IN GETTING THE INFRASTRUCTURE BACK ON ITS FEET IN A HURRY, AND THAT WE AVOIDED WHAT COULD HAVE BEEN A MUCH LARGER SUPPLY

DISRUPTION. DESPITE THE FACT THAT THE 1,100 CONOCOPHILLIPS EMPLOYEES WERE PERSONALLY IMPACTED BY THE HURRICANES, MANY WERE IMMEDIATELY BACK WORKING ON RETURNING OUR FACILITIES TO PRODUCTION AS RAPIDLY AS POSSIBLE. AS A TESTAMENT TO INDUSTRY'S SUCCESS IN BRINGING IN NEW SUPPLIES AFTER THE HURRICANES, AAA REPORTED ON NOVEMBER 2 THAT GASOLINE PRICES HAVE DECLINED FOR THE 26TH CONSECUTIVE DAY, AND THE U.S. AVERAGE PRICE, AND PRICES IN MOST STATES, ARE LOWER THAN THEY WERE PRIOR TO THE HURRICANES. THE DATA ALSO SHOWS THAT RETAIL PRICES IN THE GULF COAST ROSE BY A MUCH SMALLER PERCENTAGE THAN SPOT GASOLINE PRICES AFTER BOTH STORMS, DEMONSTRATING PRICING RESTRAINT BY THE INDUSTRY.

WHILE GASOLINE PRICES WERE ON THE FRONT PAGE PRIOR TO THE HURRICANES, THERE IS LITTLE DOUBT THAT THE BACK-TO-BACK STORMS GREATLY EXACERBATED PRICE INCREASES, ESPECIALLY IN THE IMPACTED STATES. AS A RESULT OF MASSIVE REFINERY SHUTDOWNS, THERE WAS AN IMMEDIATE INCREASE IN THE SPOT PRICE OF GASOLINE. THIS PRICE RISE ENCOURAGED GASOLINE SUPPLIES FROM AROUND THE WORLD TO BE DIVERTED TO THE UNITED STATES. GASOLINE IMPORTS FROM THE BEGINNING OF SEPTEMBER THROUGH THE END OF OCTOBER WERE 35% HIGHER

THAN THEY WERE DURING THE SAME PERIOD LAST YEAR. WITH INCREASED SUPPLY, PRICES THEN READJUSTED DOWNWARDS RAPIDLY. THIS DEMONSTRATES THAT THE MARKET WORKS.

DIESEL SUPPLIES HAVE PROVED TO BE MORE DIFFICULT TO IMPORT THAN GASOLINE SUPPLIES BECAUSE OF THE TIGHT GLOBAL DIESEL SUPPLY/DEMAND BALANCE, AND PARTICULARLY STRONG DEMAND FOR DIESEL FUEL IN EUROPE, WHICH PREVENTED SOME PRODUCT FROM BEING DIVERTED TO THE UNITED STATES. THIS ALSO DEMONSTRATES THE RISKS OF BIASING CONSUMERS TOWARDS ONE FUEL OVER ANOTHER. DIESEL HAS BENEFITED FROM ADVANTAGEOUS TAX TREATMENT FOR DECADES IN SEVERAL EUROPEAN COUNTRIES. AS A RESULT, DIESEL DEMAND NOW EXCEEDS GASOLINE DEMAND, PRICES ARE RISING AND U.S. CUSTOMERS WHO USE THE SAME PRODUCT AS HEATING OIL ARE PAYING MORE. DIESEL MARKET TIGHTNESS IN THE U.S. HAS ALSO BEEN EXACERBATED BY REFINERIES MAXIMIZING GASOLINE VERSUS DIESEL PRODUCTION TO MEET IMMEDIATE CONSUMER GASOLINE NEEDS. AS THE REFINING INDUSTRY PREPARES TO MEET THE CONGRESSIONALLY-MANDATED DEADLINE FOR PRODUCING LOW-SULFUR DIESEL BY JUNE 1, 2006, YOU MAY CONTINUE TO OBSERVE ERRATIC PRICING IN DIESEL MARKETS NEXT YEAR.

THERE CONTINUES TO BE CONCERNS ABOUT HOME HEATING OIL AND NATURAL GAS AS WE ENTER THE WINTER MONTHS. WEATHER, AND ITS IMPACT ON DEMAND, WILL DETERMINE HOW PRICES REACT. THE PROBLEM WITH NATURAL GAS IS THAT THERE IS STILL 9% OF U.S. SUPPLY SHUT IN AND THERE IS LITTLE ADDITIONAL LIQUEFIED NATURAL GAS SUPPLY AVAILABLE FOR IMPORT THIS WINTER. IN FACT, THERE HAVE BEEN REPORTS OF SEVERAL EUROPEAN AND ASIAN BUYERS PAYING U.S. PRICE LEVELS OF \$12 PER MILLION BRITISH THERMAL UNITS FOR SPOT LNG CARGOES SO THAT THE CARGOES WOULDN'T BE REDIRECTED TO THE UNITED STATES. THUS, IT IS IMPORTANT THAT GOVERNMENTS AT ALL LEVELS ENCOURAGE CONSUMERS TO CONSERVE NATURAL GAS THIS WINTER.

THERE WILL BE SUBSTANTIAL NEW SUPPLIES OF LNG STARTING IN 2008-2009, WHEN THE FIRST SLATE OF LNG PROJECTS DEDICATED TO U.S. MARKETS COMES ON LINE. HOWEVER, IT SHOULD BE NOTED THAT VIRTUALLY ALL OF THE LNG RECEIVING TERMINALS CURRENTLY BEING CONSTRUCTED ARE IN THE WESTERN GULF OF MEXICO. GIVEN OUR RECENT EXPERIENCES WITH HURRICANES, IT WOULD SEEM PRUDENT TO ALSO BUILD SOME OF THE LNG TERMINALS ON THE EAST AND WEST COASTS.

OUR RESPONSE – HURRICANE IMPACTED SUPPLIES AND PRICES

CONOCOPHILLIPS, ONE OF THE LARGEST REFINERS IN THE UNITED STATES, TEMPORARILY LOST ONE-THIRD OF ITS DOMESTIC CAPACITY AS THE RESULT OF THE SHUTDOWN OF THREE REFINERIES. OF THE THREE REFINERIES, ONE WAS DOWN FOR ABOUT ONE WEEK, ANOTHER FOR 45 DAYS AND THE ALLIANCE REFINERY MENTIONED PREVIOUSLY IS EXPECTED TO BE BACK UP IN PARTIAL OPERATION BY YEAR END.

I AM PROUD OF THE PERFORMANCE OF OUR EMPLOYEES AS THEY HANDLED THIS SUPPLY SHORT FALL. WE CAREFULLY MANAGED OUR LIMITED, AVAILABLE GASOLINE AND DIESEL INVENTORIES TO ENSURE THAT LOCAL AND FEDERAL EMERGENCY RESPONDERS WERE GIVEN TOP SUPPLY PRIORITY WITHIN THE AREAS IMPACTED BY THE HURRICANES.

TO INCREASE GASOLINE SUPPLIES TO AFFECTED AREAS, CONOCOPHILLIPS REDIRECTED SUPPLY FROM SOME OF ITS OTHER REFINERIES, DEFERRED TURNAROUND WORK AT THREE OTHER COMPANY REFINERIES, IMPORTED GASOLINE FROM EUROPE, AND WORKED AROUND THE CLOCK TO SAFELY RESTORE OPERATIONS. AFFECTED CONOCOPHILLIPS PLANTS WORKED DILIGENTLY TO RESTORE TEMPORARY POWER AND OPERATIONS THAT ALLOWED

**RAPID BLENDING AND SHIPPING OF ALL AVAILABLE PRODUCTS
STRANDED IN STORAGE JUST PRIOR TO THE HURRICANES.**

**WITH RESPECT TO DIESEL, WHEN ALL THREE OF OUR REFINERIES
WERE DOWN, WE LOST 200,000 BARRELS PER DAY OF DIESEL
PRODUCTION. THIS CREATED A SHORTAGE AND SEVERELY LIMITED
OUR ABILITY TO SUPPLY OUR NORMAL SPOT AND TERM DIESEL
CUSTOMERS IN TEXAS, THE SOUTHEAST AND OKLAHOMA. WE
COULDN'T IMPORT A SIGNIFICANT VOLUME OF DIESEL FUEL BECAUSE
OF THE STRONG DEMAND IN EUROPE, AND BECAUSE OF THE LIMITED
IMPORT CAPABILITY ON THE GULF COAST. TO HELP BALANCE
AVAILABLE SUPPLY WITH DEMAND, CONOCOPHILLIPS HAD TO
DISCONTINUE ALL DISCRETIONARY SPOT SALES AND PURCHASE
ADDITIONAL SUPPLIES ON THE SPOT MARKET TO FULFILL ALL OF OUR
TERM CONTRACTS.**

**GETTING TWO 100-YEAR HURRICANES IN FOUR WEEKS THAT
TEMPORARILY SHUT DOWN 30% OF THE NATION'S REFINING
CAPACITY LED TO PRODUCT PRICE INCREASES IN THE PHYSICAL AND
FINANCIAL MARKETS. BUT IMMEDIATELY AFTER KATRINA'S AND
RITA'S ARRIVAL, CONOCOPHILLIPS FROZE GASOLINE PRICES IN THE
IMPACTED STATES AT ALL COMPANY-OWNED STATIONS AND
CONVENIENCE STORES FOR A FEW DAYS, AND THEN LAGGED PRICE**

INCREASES IN THE SPOT MARKET BY NEARLY 50%. WE ALSO REQUESTED OUR INDEPENDENT MARKETERS TO USE RESTRAINT IN SETTING PRICES AND NOT TO DO ANYTHING TO TARNISH OUR BRANDED NAME. ESSENTIALLY ALL OF CONOCOPHILLIPS' BRANDED SALES ARE DONE THROUGH INDEPENDENT MARKETERS. ANTI-TRUST LAWS PREVENT US FROM GIVING OUR INDEPENDENT MARKETERS ANY SPECIFIC GUIDANCE ON PRICING. WE ONLY OWN 350 OUTLETS IN THE UNITED STATES, WHICH REPRESENTS THREE PERCENT OF CONOCOPHILLIPS' REFINING CAPACITY. AT NO TIME DID WE LEAD PRICE INCREASES; WE SHOWED RESTRAINT AND INTENTIONALLY LAGGED BEHIND PRICES IN THE FINANCIAL AND PHYSICAL MARKETS.

THE PETROLEUM INDUSTRY HAS ROUTINELY BEEN ACCUSED OF PRICE GOUGING WHENEVER THERE ARE SUDDEN CHANGES IN OIL AND NATURAL GAS PRICES. IN A REPORT PUBLISHED EARLIER THIS YEAR, THE FEDERAL TRADE COMMISSION STATED THAT THE VAST MAJORITY OF ITS INVESTIGATIONS HAVE REVEALED MARKET FACTORS TO BE THE PRIMARY DRIVERS OF BOTH PRICE INCREASES AND PRICE SPIKES. CONOCOPHILLIPS IS AND HAS ALWAYS BEEN AGAINST ANY FORM OF PRICE GOUGING. IF WE BECAME AWARE THAT ANY OF OUR INDEPENDENT MARKETERS WERE DOING THIS, THAT WOULD BE GROUNDS FOR REVOKING OUR BRANDED NAME FROM THAT DEALER. WE KNOW THAT MANY STATE ATTORNEY GENERALS

ARE REQUESTING REVIEWS, AND WE ARE READY TO OPEN OUR RECORDS TO THEM TO SHOW THAT WE DO NOT CONDUCT, CONDONE OR TOLERATE PRICE GOUGING.

EARNINGS AND INVESTMENTS

SINCE THERE HAS BEEN A LOT OF FOCUS ON ENERGY COMPANY EARNINGS IN THE THIRD QUARTER, WE WANT TO EXPLAIN OUR EARNINGS AND HOW MUCH OF THEM WE HAVE REINVESTED.

COP REPORTED THIRD-QUARTER 2005 NET INCOME OF \$3.8 BILLION, UP 89% FROM THIS QUARTER LAST YEAR. 48% OF THIS INCREASE COMES FROM OUR WORLDWIDE OIL AND GAS EXPLORATION AND PRODUCTION OPERATIONS, 38% OF THIS INCREASE COMES FROM OUR WORLDWIDE REFINING AND MARKETING OPERATIONS AND 15% COMES FROM OUR STRATEGIC ALLIANCE WITH LUKOIL, WHICH WE ENTERED INTO DURING THE FOURTH QUARTER OF 2004.

WITH RESPECT TO U.S. REFINING & MARKETING INCOME, THIS INCOME REPRESENTS 33% OF THE 89% INCREASE. EARNINGS FROM OUR U.S. REFINING AND MARKETING OPERATIONS WERE ABOUT \$1.1 BILLION IN THE THIRD QUARTER OF 2005, COMPARED WITH \$505 MILLION A YEAR AGO. EARNINGS PER GALLON SOLD WERE ONLY UP 4 CENTS PER GALLON FROM LAST YEAR, FROM 5 CENTS PER GALLON IN

THIRD-QUARTER 2004 TO 9 CENTS PER GALLON IN THIRD-QUARTER 2005.

THE INDUSTRY AVERAGE RETAIL PRICE FOR GASOLINE WENT UP 67 CENTS PER GALLON FROM THIRD QUARTER 2004 TO THIRD QUARTER 2005 (\$1.93 PER GALLON TO \$2.60 PER GALLON). CONTRASTING THE RETAIL PRICE INCREASE WITH CONOCOPHILLIPS'4 CENT PER GALLON INCREASE, BEGS THE QUESTION:

WHERE DID ALL OF THIS DIFFERENCE GO?

- 54 CENTS PER GALLON WENT FOR HIGHER CRUDE OIL AND FEEDSTOCK COSTS THAT WE MUST PAY TO RUN THROUGH OUR REFINERIES. NORMALLY, THE OIL THAT WE PURCHASE REPRESENTS 85 TO 90% OF THE TOTAL COST OF RUNNING OUR REFINERIES.**
- OPERATING AND MARKETING COSTS REMAINED FLAT ON A PER GALLON BASIS, WHILE TAXES INCREASED 3 CENTS PER GALLON DUE TO HIGHER EARNINGS.**
- IN ADDITION, 6 CENTS PER GALLON REPRESENTS RETAIL INDUSTRY TAXES AND MARGINS THAT CONOCOPHILLIPS IS NOT EXPOSED TO BECAUSE OUR U.S. MARKETING OPERATIONS ARE PREDOMINATELY WHOLESALE ACTIVITIES.**

- **THAT LEAVES 4 CENTS PER GALLON PROFIT OR 6% OF THE TOTAL INCREASE IN THE GASOLINE PRICE.**

CONOCOPHILLIPS' THIRD-QUARTER REVENUES OF ABOUT \$50 BILLION GENERATED ABOUT \$3.8 BILLION OF INCOME. THIS REPRESENTS A PROFIT MARGIN OF 7.7 CENTS PER DOLLAR OF SALES, NEAR OR BELOW THE AVERAGE OF ALL INDUSTRIES. WITH THIS LEVEL OF PROFIT IN THE HIGHEST PRICE ENVIRONMENT OUR INDUSTRY HAS EXPERIENCED IN 22 YEARS, ADJUSTED FOR INFLATION, WE DON'T SEE A WINDFALL.

WE ALSO FEAR THAT PEOPLE ARE MISTAKING THE SIZE OF OUR EARNINGS FOR A WINDFALL, NOT REALIZING THE ENORMOUS LEVELS OF INVESTMENT REQUIRED TO ACHIEVE THOSE EARNINGS AND BRING NEW ENERGY SUPPLIES TO THE MARKET.

LET ME TELL YOU HOW MUCH CONOCOPHILLIPS IS INVESTING, AND THE RATE WHICH SPENDING HAS RAMPED UP IN RECENT YEARS. CONOCOPHILLIPS INVESTED ABOUT \$6 BILLION IN 2003, GROWING TO \$9.5 BILLION IN 2004, AN ESTIMATED \$11.4 BILLION IN 2005 (ANNUALIZED YEAR-TO-DATE THIRD-QUARTER ACTUALS) AND \$12 BILLION FORECASTED IN 2006, WHICH IS DOUBLE THE 2003 LEVEL.

CONOCOPHILLIPS HAS BEEN INVESTING ITS EARNINGS BACK INTO MAINTAINING AND EXPANDING SUPPLIES. WE HAVE HAD 2005 EARNINGS OF ABOUT \$10 BILLION YEAR-TO-DATE – ABOUT \$1 BILLION A MONTH, BUT OUR CAPITAL INVESTMENTS ARE ALSO CLOSE TO \$1 BILLION A MONTH. IN FACT, OVER A THREE –YEAR TIMEFRAME, USING 2003-2004 REPORTED RESULTS AND 2005 ANNUALIZED YEAR-TO-DATE THIRD-QUARTER ACTUALS, CONOCOPHILLIPS EARNINGS ARE ABOUT \$26 BILLION BUT INVESTMENTS ARE JUST OVER \$26 BILLION. IN 2006, WE INTEND TO INCREASE OUR CAPITAL SPENDING DESPITE THE FACT THAT WE EXPECT TO HAVE A LOWER PRICE ENVIRONMENT, INCREASED COST PRESSURE AND LOWER EARNINGS.

OUR INVESTMENT STORY

CONOCOPHILLIPS HAS BEEN AGGRESSIVELY INVESTING IN REFINING, AND IN DEVELOPING NEW NATURAL GAS SUPPLIES FOR THE UNITED STATES. THE PROJECTS DESCRIBED BELOW ARE ALL VERY LARGE AND WILL REQUIRE SIGNIFICANT CAPITAL EXPENDITURES IN THE FUTURE.

INDUSTRY ANALYSTS, SOME OF WHOM QUESTIONED THE ECONOMICS OF OUR DECISIONS, WILL TELL YOU THAT WE HAVE BEEN AT THE FOREFRONT IN RECENT YEARS IN GROWING THE COMPANY’S REFINING BUSINESS WHEN MOST OF OUR COMPETITORS WERE

FOCUSING ON EXPLORATION AND PRODUCTION. OVER THE PAST FIVE YEARS, CONOCOPHILLIPS HAS SPENT \$4.0 BILLION WORLDWIDE, OF WHICH \$3.2 BILLION WAS SPENT DOMESTICALLY, TO EXPAND AND MODERNIZE OUR REFINERIES AND UPGRADE MARKETING OPERATIONS.

GOING FORWARD, WE ARE PLANNING AN EXPANDED INCREMENTAL INVESTMENT PROGRAM, WHEREBY WE EXPECT TO INVEST \$4-5 BILLION, ON TOP OF OUR MAINTENANCE AND OTHER REFINERY INVESTMENTS OF \$1-2 BILLION PER YEAR. THIS INVESTMENT PROGRAM IS AIMED AT GROWING OUR U.S. REFINING CAPACITY BY ABOUT 11% AND IMPROVING OUR CAPABILITY OF HANDLING LOWER QUALITY OILS IN ORDER TO MAKE 15% MORE CLEAN FUELS SUCH AS GASOLINE, DIESEL AND HEATING OIL BY 2011. THESE EXPANSIONS WILL ADD ENOUGH CLEAN FUELS PRODUCT TO BE THE EQUIVALENT OF ADDING ONE WORLD SCALE REFINERY TO OUR DOMESTIC REFINING SYSTEM.

CONOCOPHILLIPS WILL CONTINUE TO BE PROACTIVE AND WE APPLAUD INDUSTRY EFFORTS TO EXPAND CAPACITY AND ADD NEW REFINERIES. WE DO NOT NEED ANY NEW GOVERNMENT INCENTIVES TO MAKE THESE INVESTMENTS. HOWEVER, WE DO NEED THOROUGH - BUT EXPEDITED - PERMITTING AND REGULATORY ENVIRONMENTAL

REVIEWS SO WE CAN QUICKLY MAKE THE INVESTMENTS, THEREBY ADDING CAPACITY AND REFINED PRODUCT SUPPLY.

CONOCOPHILLIPS IS MAKING MAJOR INVESTMENTS IN NORTH AMERICAN ARCTIC NATURAL GAS THROUGH THE MACKENZIE DELTA PIPELINE AND ALASKAN NORTH SLOPE PIPELINES. THE INITIAL DEVELOPMENT OF THE MACKENZIE DELTA WILL ACCESS 6 TRILLION CUBIC FEET OF GAS, WHICH IS EXPECTED TO COME ON STREAM IN 2011 AT APPROXIMATELY 1 BILLION CUBIC FEET PER DAY. AS OTHER FIELDS ARE ADDED, THE PIPELINE WILL HAVE THE CAPACITY TO BE EXPANDED TO 1.8 BILLION CUBIC FEET PER DAY. THE TOTAL COST OF THIS PIPELINE IS ESTIMATED TO BE AT LEAST \$6 BILLION.

THE ALASKAN NORTH SLOPE PRESENTLY HAS AN ESTIMATED 35 TRILLION CUBIC FEET OF NATURAL GAS, WHICH WOULD INCREASE TOTAL U.S. GAS RESERVES BY APPROXIMATELY 20%. WHEN THE PIPELINE CONNECTING THIS GAS WITH THE LOWER 48 MARKET IS COMPLETED, ABOUT 4.0 - 4.5 BILLION CUBIC FEET PER DAY WILL BE ADDED TO NATURAL GAS SUPPLIES. THIS EQUATES TO ABOUT 8% OF PRESENT U.S. NATURAL GAS PRODUCTION. THIS PROJECT EXEMPLIFIES WHAT WE HAVE BEEN SAYING ABOUT CAPITAL INTENSIVE PROJECTS THAT REQUIRE MANY YEARS BEFORE WE SEE A RETURN ON THE INVESTMENT. THE ALASKA PIPELINE ALONE IS

EXPECTED TO COST ABOUT \$20 BILLION AND TAKE TEN YEARS BEFORE THE FIRST CUBIC FOOT OF GAS IS SOLD ON THE MARKET. TWO WEEKS AGO, CONOCOPHILLIPS JOINED GOVERNOR MURKOWSKI OF ALASKA IN ANNOUNCING THAT WE HAVE REACHED AN AGREEMENT IN PRINCIPLE ON TERMS AND CONDITIONS THAT WOULD MOVE THE ALASKAN NATURAL GAS PIPELINE CLOSER TO REALITY. ONCE AGREEMENT IS COMPLETED BY ALL GAS OWNERS, THE ALASKA LEGISLATURE WILL, HOPEFULLY, ACT ON THAT AGREEMENT, PASSING IT QUICKLY. WHILE IT IS NOT A SHORT TERM SOLUTION, GAS FROM ALASKA WILL, EVENTUALLY, MAKE A SIZABLE CONTRIBUTION IN ADDRESSING THE MARKET PROBLEMS WE ARE ANTICIPATING FOR NATURAL GAS.

CONOCOPHILLIPS IS ALSO INVESTING AGGRESSIVELY IN BRINGING LIQUEFIED NATURAL GAS (LNG) TO THE U.S. MARKET. WE ARE PROGRESSING LNG PROJECTS IN QATAR AND NIGERIA AND AGGRESSIVELY PURSUING PROJECTS IN RUSSIA, VENEZUELA AND AUSTRALIA. THESE ARE ALL MULTI-BILLION DOLLAR PROJECTS. WE WILL BRING OUR FIRST CARGO OF QATARI GAS TO THE UNITED STATES IN 2009. WE ARE ALSO DEVELOPING AN LNG SUPERTANKER TO BRING GAS TO THE UNITED STATES. WE ARE PARTICIPATING IN THE CONSTRUCTION OF AN LNG REGASIFICATION FACILITY AT FREEPORT, TEXAS. WE ARE PURSUING A SECOND LNG REGASIFICATION

TERMINAL IN COMPASS PORT, OFFSHORE ALABAMA, ALTHOUGH IT IS CURRENTLY BOGGED DOWN IN THE PERMITTING PROCESS. WE ARE COMMITTED TO MAKING THE INVESTMENTS IN THESE TWO FACILITIES, WHICH TOTAL OVER \$1.5 BILLION. WE ARE ALSO PURSUING PERMITTING OF REGASIFICATION FACILITIES ON THE EAST AND WEST COASTS AS WELL AS AN ADDITIONAL GULF COAST TERMINAL.

TO BOLSTER U.S. AND GLOBAL OIL SUPPLIES, CONOCOPHILLIPS IS EXPANDING CONVENTIONAL CRUDE PRODUCTION IN VENEZUELA, RUSSIA AND THE FAR EAST. THERE IS LIKELY TO BE A BRIDGE OF UNCONVENTIONAL HEAVY OIL AND NATURAL GAS BEFORE THE WORLD TRANSITIONS TO ALTERNATIVE FUELS IN A LARGE WAY. CONOCOPHILLIPS HAS INVESTED AND CONTINUES TO INVEST HEAVILY IN UNCONVENTIONAL HEAVY OIL PRODUCTION IN VENEZUELA AND CANADA. OUR COMPANY ANNOUNCED JUST LAST WEEK THAT WE WILL BE PARTNERING WITH A CANADIAN COMPANY TO DEVELOP THE \$2.1 BILLION KEYSTONE PIPELINE, WHICH WILL BRING OVER 400 THOUSAND BARRELS PER DAY OF MUCH NEEDED CANADIAN HEAVY OIL PRODUCTION TO OUR U.S. MID-CONTINENT REFINERIES.

THERE IS AN ESTIMATED 7 TRILLION BARRELS OF UNCONVENTIONAL HEAVY OIL IN PLACE VERSUS CONVENTIONAL ESTIMATES OF 3 TRILLION BARRELS. TECHNOLOGY IMPROVEMENT WILL BE IMPORTANT IN RAISING THE PRESENT LOW RECOVERY RATES OF UNCONVENTIONAL HEAVY OIL. WE ARE ALSO BUILDING ADDITIONAL UPGRADING CAPACITY IN OUR REFINERIES TO PROCESS UNCONVENTIONAL HEAVY CRUDE. WE HAVE ALSO DEVELOPED TECHNOLOGY FOR TURNING NATURAL GAS INTO A SLATE OF CLEAN REFINED OIL PRODUCTS, WHICH WILL ENHANCE CLEAN DIESEL SUPPLIES.

AS FOR ALTERNATIVE ENERGY SOURCES, CONOCOPHILLIPS IS PRESENTLY FOCUSED MORE ON RESEARCH AND DEVELOPMENT AND MONITORING VERSUS MAKING LARGE CAPITAL INVESTMENTS, GIVEN THE TREMENDOUS UNCERTAINTY ABOUT WHICH TECHNOLOGIES WILL BE ACCEPTED IN THE MARKET PLACE AND HOW MUCH THEIR COST CAN BE REDUCED SO THEY CAN COMPETE WITH CONVENTIONAL FORMS OF ENERGY. HOWEVER, WE RECENTLY HAD A SUCCESSFUL EXPERIMENT WITH RENEWABLE DIESEL, AND WE ARE CONDUCTING OTHER TESTS TO EVALUATE TECHNOLOGIES TO PRODUCE GASOLINE AND OTHER LIQUID FUELS FROM NON-PETROLEUM FEEDSTOCK. WE ARE COGNIZANT OF U.S. DEPARTMENT OF ENERGY AND INTERNATIONAL ENERGY AGENCY PROJECTIONS THAT THE MARKET

SHARE OF RENEWABLE FUELS, INCLUDING HYDROPOWER, WILL LIKELY BE LESS THAN 14% BY 2025-2030 DUE TO THE TECHNOLOGICAL, ECONOMIC AND ENVIRONMENTAL CHALLENGES OF MOST OF THESE ALTERNATIVES.

AVOIDING FUTURE SUPPLY DISRUPTIONS & PRICE RUN UPS

BEFORE WE GET TO SOLUTIONS FOR SUPPLY AND PRICE ISSUES, WE WOULD LIKE TO POINT OUT THAT YOU CAN NOT COMPLETELY AVOID SUPPLY DISRUPTIONS AND PRICE RUN UPS WHEN YOU HAVE INCIDENTS SUCH AS TWO 100-YEAR BACK-TO-BACK HURRICANES AND MASSIVE SHUTDOWNS OF ENERGY INFRASTRUCTURE. HOWEVER, THE INDUSTRY AND MARKETS DO RESPOND RAPIDLY, ALTHOUGH NEVER AS QUICKLY AS THE CONSUMER WOULD LIKE. AND EVEN AFTER THESE DEVASTATING HURRICANES, PRICES ARE NOW BELOW WHERE THEY WERE BEFORE THE STORMS. MARKET FORCES WORK AND INTERFERING WITH THE MARKET WOULD EXACERBATE SUPPLY SHORT FALLS AND STIFLE INVESTMENT. AND REPRESENTING A COMPANY WHO PARTICIPATES IN THE MARKET EVERY DAY, I CAN'T SAY IT MORE EMPHATICALLY -- CONOCOPHILLIPS WILL NOT CONDONE OR TOLERATE PRICE GOUGING.

WHAT THIS COUNTRY SORELY NEEDS IS ADDITIONAL REFINING CAPACITY, PIPELINES, AND OTHER CRITICAL ENERGY

INFRASTRUCTURE. THE PRIVATE SECTOR WILL LIKELY MAKE THESE INVESTMENTS WITHOUT NEED OF ANY NEW GOVERNMENT INCENTIVES. HOWEVER, THE INDUSTRY DOES NEED GOVERNMENTS AT ALL LEVELS TO BE THOROUGH - BUT AT THE SAME TIME - TO STREAMLINE PERMITTING AND ENVIRONMENTAL REVIEW PROCESSES SO WE CAN MAKE THESE INVESTMENTS AND ADD ENERGY SUPPLIES.

OUR COMPANY WOULD ALSO SUPPORT MOVING AWAY FROM “BOUTIQUE” FUELS TO MORE STANDARDIZATION OF REFINED PRODUCTS. THIS WILL MAKE IT EASIER TO REDISTRIBUTE PRODUCTS DURING TIMES OF SHORTAGE AND SHOULD REDUCE PRICE VOLATILITY IN NORMAL MARKET CONDITIONS.

OUR COMPANY IS PARTICULARLY CONCERNED ABOUT PERMITTING AND THE NIMBY ISSUES ASSOCIATED WITH BUILDING NEW LNG RECEIVING TERMINALS. LNG OFFERS THE MOST PROMISING OPTION FOR MEETING THE GROWING NATURAL GAS NEEDS OF AMERICAN CONSUMERS IN THE NEAR TERM. CONOCOPHILLIPS AND OTHER COMPANIES HERE TODAY HAVE SEARCHED THE FOUR CORNERS OF THE GLOBE TO FIND AND CONTRACT FOR NEW SOURCES OF LNG TO BRING TO THE U.S. MARKET. WE HAVE MADE THESE ARRANGEMENTS ON THE PREMISE THAT THERE WILL BE REGASIFICATION TERMINALS BUILT AND READY WHEN THE GAS ARRIVES. BUT, THE PERMITTING

AND APPROVAL OF NEW REGASIFICATION TERMINALS IS OCCURRING SIGNIFICANTLY SLOWER THAN WE EXPECTED AND MANY ARE BEING DELAYED OR MAY BE CANCELLED, ALTOGETHER, DUE TO THE “NIMBY” OR “NOT IN MY BACK YARD” ATTITUDE THAT EXISTS IN MANY COMMUNITIES WHERE THEY ARE PLANNED.

THE SITING OF LNG TERMINALS WAS ADDRESSED IN EARLIER ENERGY POLICY LEGISLATION. HOWEVER, WASHINGTON, THE STATES AND THE INDIVIDUAL LOCALITIES WHERE THESE FACILITIES ARE PLANNED NEED TO HAVE CONTINUED DIALOGUE AND COOPERATION ON SITING ISSUES. THERE ALSO NEEDS TO BE BETTER COOPERATION AMONG THE VARIOUS FEDERAL AGENCIES CHARGED WITH EVALUATING AND PERMITTING THESE FACILITIES. IF AMERICA DOES NOT SECURE THESE BADLY-NEEDED SUPPLIES, YOU CAN BE SURE THAT COMPANIES REPRESENTING OTHER NATIONS THAT ARE HUNGRY FOR NEW ENERGY SUPPLIES WILL STEP IN AND SECURE AVAILABLE LNG SUPPLIES IN THE NOT-TOO-DISTANT FUTURE.

IF YOU ASKED US WHAT YOU COULD DO THAT WOULD HAVE THE GREATEST POSITIVE IMPACT ON SUPPLIES, IT WOULD BE TO GIVE MORE SERIOUS CONSIDERATION TO THE ISSUE OF ACCESS TO RESOURCES. LET ME EMPHASIZE THAT CONOCOPHILLIPS IS NOT PURSUING THE OPENING OF NATIONAL PARKS, THE EVERGLADES AND

OTHER SUCH SENSITIVE AREAS TO ENERGY DEVELOPMENT. BUT WITH THE ENTIRE EAST AND WEST COASTS, THE EASTERN GULF OF MEXICO AND KEY AREAS IN ALASKA ALL CLOSED TO ENTRY, IT IS UNDERSTANDABLE WHY SUPPLY/DEMAND IS TIGHT. THE INDUSTRY'S ONLY ACCESS TO NEW OFFSHORE DEVELOPMENT REMAINS THE CENTRAL AND WESTERN GULF OF MEXICO. IMMEDIATELY AFTER THE HURRICANES, INDUSTRY WAS CRITICIZED BY SOME MEMBERS OF CONGRESS FOR CONCENTRATING TOO MUCH OF ITS RESOURCES IN THE GULF REGION. WE ARE CONCENTRATED THERE BECAUSE THAT IS WHERE THE AVAILABLE RESOURCES ARE AND THAT IS WHERE POLICIES FROM CONGRESS HAVE KEPT US.

THE EASTERN GULF OF MEXICO PROBABLY HAS MORE NATURAL GAS POTENTIAL FOR CONSUMERS THAN ABOUT ANY PLACE IN THE LOWER 48 STATES. WHEN OUTER CONTINENTAL SHELF LEASE SALE 181 WAS WITHDRAWN FROM DEVELOPMENT, ANOTHER KEY PROSPECT FOR FINDING BADLY-NEEDED NATURAL GAS RESERVES WAS REMOVED FROM CONSIDERATION. WE WOULD ENCOURAGE THE SENATE TO CONSIDER REINSTATING THAT SALE AND REVISITING ACCESS IN OTHER AREAS. OUR INDUSTRY HAS THE TECHNOLOGICAL KNOW-HOW AND THE TRACK RECORD NECESSARY TO PROTECT FLORIDA'S TREASURES AND, AT THE SAME TIME, EXPLORE AND PRODUCE IN THE

EASTERN GULF IN A SAFE AND ENVIRONMENTALLY-RESPONSIBLE MANNER.

THE ROCKY MOUNTAIN REGION OF THE COUNTRY IS ANOTHER AREA WHERE NEW NATURAL GAS PRODUCTION CAN MAKE A DIFFERENCE. BUT THE LEASING AND PERMITTING PROCESS HAS HAMPERED DEVELOPMENT IN AREAS SUCH AS THE SAN JUAN BASIN OF NEW MEXICO AND THE POWDER RIVER BASIN TO THE NORTH. FUNDING AND STAFFING APPEARS TO BE IMPROVING BUT CONTINUES TO BE A KEY PROBLEM IN THESE AREAS. LOCAL BLM PERSONNEL ARE DOING A COMMENDABLE JOB WITH WHAT THEY HAVE BUT MORE FUNDING FOR PERMITTING AND RELATED STAFFING MUST BE DIRECTED TO THOSE AREAS.

THE LAST AREA THAT WE WANTED TO EXPRESS SUPPORT FOR WAS THE DEVELOPMENT OF ALL ENERGY SOURCES -- COAL, NUCLEAR, ALTERNATIVE ENERGY WITH APPROPRIATE ENVIRONMENTAL SAFEGUARDS – AS WELL AS CONSERVATION AND EFFICIENCY STANDARDS. WE WILL NEED TO INCLUDE ALL OF THESE TO DIVERSIFY SUPPLY SOURCES AND PUT SOME NEEDED SLACK BACK IN OUR SYSTEM.

**THESE ARE THE AREAS WHERE WE NEED YOUR HELP TO BETTER
ENABLE US TO MEET THE ENERGY DEMANDS OF AMERICA AND HELP
OUR COUNTRY CONTINUE TO GROW. WHAT WE DO NOT NEED ARE
IDEAS THAT SOUND GOOD TO SOME BUT HAVE NEVER WORKED AND
INVARIABLY REDUCE INVESTMENT AND SUPPLIES. WE ARE AGAINST
WINDFALL PROFIT TAXES, PRICE CONTROLS AND MANDATORY
ALLOCATIONS.**

**ACCORDING TO A 1990 REPORT OF THE CONGRESSIONAL RESEARCH
SERVICE, THE WINDFALL PROFITS TAX THAT WAS SIGNED INTO LAW
IN 1980 AND REPEALED IN 1988 DRAINED \$79 BILLION IN INDUSTRY
REVENUES DURING THE 1980S THAT COULD HAVE BEEN USED TO
INVEST IN NEW OIL PRODUCTION – LEADING TO 1.6 BILLION FEWER
BARRELS OF OIL BEING PRODUCED IN THE U.S. FROM 1980-1988. THE
TAX REDUCED DOMESTIC OIL PRODUCTION AS MUCH AS 6%, AND
INCREASED OIL IMPORTS AS MUCH AS 16%. IN ADDITION, THIS TAX
WOULD NOT TAKE INTO ACCOUNT THE SIGNIFICANTLY HIGHER
COSTS THE INDUSTRY IS FACING TODAY.**

**FINALLY, ANY TAX THAT DRAINS INVESTMENT DOLLARS FROM U.S.
OIL COMPANIES REDUCES THEIR ABILITY TO COMPETE WITH
FOREIGN COMPANIES. OF THE WORLD'S CURRENTLY KNOWN
CONVENTIONAL OIL AND GAS RESERVES, ONLY 7 PERCENT IS HELD BY**

THE INTERNATIONAL OIL COMPANIES. THIS MEANS AMERICA'S ENERGY COMPANIES FACE A TREMENDOUS CHALLENGE IN GAINING ACCESS TO LARGE, RELIABLE SOURCES OF OIL AND GAS AROUND THE WORLD. FEDERAL TAX POLICIES THAT JEOPARDIZE THE COMPETITIVE STRENGTH OF AMERICA'S ENERGY REPRESENTATIVES COULD WEAKEN OUR ABILITY TO MEET THE NATION'S NEEDS NOW, AND FOR YEARS TO COME.

WE ARE NOT IN FAVOR OF ANY SPECIAL TAXES LEVIED ON OUR INDUSTRY TO SUPPORT THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP). WHILE WE BELIEVE THIS IS A VERY WORTHY PROGRAM, WE THINK IT IS A BAD PRECEDENT TO HAVE PRIVATE INDUSTRY SUPPORT A FEDERALLY-FUNDED PROGRAM. IN ADDITION, THIS WILL REDUCE THE LEVEL OF INVESTMENT WE WILL BE ABLE TO MAKE, THEREBY REDUCING THE DEVELOPMENT OF NEW SUPPLIES.

WE AGREE THERE IS A NEED FOR ADDED SUPPLY AND WE WANT TO PARTICIPATE IN PROVIDING IT. LEVYING ADDITIONAL TAXES WILL OBSTRUCT OUR ABILITY TO DO THAT. THERE IS A DIRECT CORRELATION BETWEEN ENERGY INVESTMENT AND ENERGY SUPPLY.

OUR COMPANY AND THE INDUSTRY ARE FULLY AWARE OF THE PUBLIC DISTRUST AND CONCERN ABOUT THE RAPID RISE IN ENERGY

PRICES. HOWEVER, THE HIGHER PRICES WERE CAUSED IN PART BY SUB-PAR RETURNS THAT LED TO UNDER-INVESTMENT IN THE ENERGY SECTOR FOR SEVERAL DECADES. ONLY NOW ARE RETURNS APPROACHING LEVELS THAT ECONOMICALLY JUSTIFY A MAJOR STEP UP IN ENERGY INVESTMENTS, AND THERE IS NO GUARANTEE THAT CURRENT RETURN LEVELS WILL PERSIST OVER THE LIFE OF THE INVESTMENT. WE ARE MAKING THE NECESSARY INVESTMENTS IN ADDED PRODUCTION AND REFINING CAPACITY BUT ARE CONCERNED THAT PROPOSED LEGISLATION WILL HINDER OUR ABILITY TO MAKE FUTURE INVESTMENTS.

CONCLUSION

MEETING U.S. AND GLOBAL ENERGY NEEDS OVER THE NEXT 30 YEARS WILL REQUIRE A TREMENDOUS AMOUNT OF INVESTMENT. THE INTERNATIONAL ENERGY AGENCY CALCULATED THAT \$16 TRILLION WOULD BE REQUIRED TO MEET GLOBAL ENERGY NEEDS AND \$3.5 TRILLION WOULD BE NEEDED TO MEET U.S. ENERGY NEEDS. WE NEED TO WORK TOGETHER TO MEET SUCH AN ENORMOUS CHALLENGE. OUR INDUSTRY SHOULD DO WHAT WE DO BEST – FINDING NEW ENERGY SUPPLIES AND BRINGING THEM TO THE MARKET. WE ASK THAT YOU DO WHAT YOU DO BEST...HELP AMERICAN COMPANIES STAY STRONG COMPETITORS IN THE GLOBAL ENERGY MARKET...AND

STREAMLINE THE REGULATORY PROCESSES AND REMOVE OTHER BARRIERS THAT DISCOURAGE ENERGY INVESTMENT AT HOME.

I WOULD LIKE TO COMMEND CHAIRMEN DOMENICI AND STEVENS FOR YOUR COMMITTEES TIRELESS EFFORTS OVER THE PAST FEW YEARS TO ADDRESS ENERGY POLICY. THE LEGISLATION THAT HAS BEEN ENACTED, THUS FAR, IS A NOTABLE START IN ADDRESSING THE ENERGY NEEDS OF THIS COUNTRY. BUT THERE IS MORE WORK TO BE DONE IN REMOVING BARRIERS TO INVESTMENT.

WE NEED TO HAVE BETTER COMMUNICATION AND WORK MORE CLOSELY IN A TRANSPARENT WAY WITH KEY STAKEHOLDERS – GOVERNMENTS AND CONSUMERS -- TO DEVELOP A SOUND LONG-TERM ENERGY PROGRAM, WHICH WE HAVE NOT HAD FOR MANY DECADES. THIS PROGRAM NEEDS TO STRESS INVESTMENT, SUPPLY EXPANSION, CONSERVATION AND ALTERNATIVE ENERGY SOURCES. OUR COMPANY PLANS TO PLAY A PROACTIVE ROLE IN MEETING U.S. AND GLOBAL ENERGY CHALLENGES AND LOOKS FORWARD TO WORKING WITH YOU TO ACHIEVE THIS MUTUAL GOAL.