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ConocoPhillips

June 26, 2008

The Honorable Patrick Leahy
Chairman, Committee on the Judiciary
U.S. Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510-6275

Dear Senator Leahy:

I am attaching our company's responses to the written questions from members of the Senate Committee on the Judiciary you forwarded to us in your May 29, 2008 letter. We appreciate you extending the response deadline to June 26, 2008 as it allowed us to spend the time required to address some of the more complex questions.

Please direct any further questions on this response to Jeff Reamy, in our Washington, D.C. office. His telephone number is (202) 833-0922.

We appreciate the opportunity to share our views on the energy security challenges that the U.S. is facing and what our beliefs on what this nation needs to do about it. We look forward to further dialogue with your committee on this important topic.

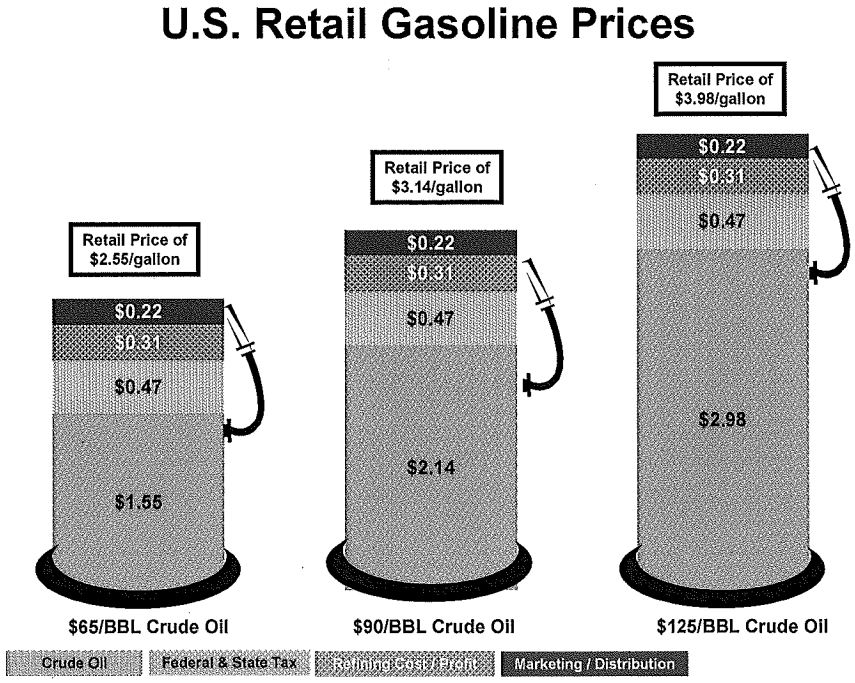
Sincerely,

John E. Lowe

Questions of Chairman Patrick Leahy
Following the Senate Judiciary Committee Hearing
"Exploring the Skyrocketing Price of Oil"

1. Mr. Hofmeister testified last week that the price of crude oil should be in the range of $35 to $65 a barrel. If the price of crude oil on the world market returned to that competitive level, what could your company charge for a gallon of gas and remain profitable?

It is difficult to assess the level of future gasoline prices at which ConocoPhillips will be profitable because there are many factors that influence profitability. However, the price of gasoline is primarily a function of the price of crude oil as reflected in the chart below.



Source: Energy Information Administration; Assumed average refining, marketing & distribution costs from 2000 – YTD 2008 & current taxes

This chart, based on historical market pricing and the U.S. Department of Energy and other estimates of the components of retail gasoline prices, projects what the retail gasoline price should be at a $65, $90 and $125 per barrel crude oil price. This analysis is simplified for the purposes of explaining the impact of crude price changes. The estimates assume that refining, distribution and marketing costs remain at the average level for 2000 through mid-2008 and federal, state and local sales taxes remain at present levels for all three cases. The chart shows that at a $125 per barrel crude price, crude accounts for $2.98 of the projected pump price of $3.98 per gallon, with the remaining $1.00 per gallon accounting for all other costs and taxes. At a $90 per barrel crude oil price, the crude cost would be $2.14 per gallon and the overall retail price would be $3.14 per gallon. At a $65 per barrel crude oil price, the crude cost would be $1.55 per gallon and the overall retail price would be $2.55 per gallon.

In the actual market, some of the other cost components vary with the crude price. However, this produces a good approximation.

2. Each of your companies is vertically integrated from oil exploration and production through refining and retail gasoline sales. I understand that the price of crude oil is set on the world market, and that your companies, for the most part, sell the crude oil they produce on the market and then buy back the crude oil that they refine. I further understand that each of your companies refines more oil than it produces.

The efficiencies that come from vertical integration, however, should include the ability to refine the oil that you produce in a manner that is less expensive than if purchased in the commodities market.

(a) What is your company doing to make vertical integration work for consumers?

Although some vertical integration is achieved where it makes business sense, ConocoPhillips is not fully integrated from exploration and production to retail gasoline sales. Currently, we own and operate only 324 retail sites in the United States. With respect to integration of our oil production and refining operations, ConocoPhillips currently refines approximately 38 percent of the crude oil that it produces in the U.S., but this serves as less than 10 percent of our total crude purchases for our U.S. refineries. In many cases, our crude oil production is either too distant from our refineries to be economical or of a quality that cannot be run or that would not enable us to maximize production volumes and values based on our refinery configuration.

We have, and continue to make, substantial investments in our production operations and in our refineries to make the efficiencies of vertical integration improve supply security and reduce our costs of gasoline and other products. We are, for example, trying to utilize our U.S. refining position to secure attractively-priced Canadian oil sands production and enhance the energy security of the United States. For example, in 2007 ConocoPhillips formed a joint venture with EnCana, a Canadian oil sands producer, to make two 50 / 50 operating businesses. One of them includes two of their large oil sands projects. The other includes two of our U.S. refineries. This joint venture is presently working to expand the capabilities of the Wood River refinery in Illinois to handle additional volumes of crude oil from the Canadian oil sands. We applied for a permit for this expansion in May 2006 and are still awaiting approval. The permitting process needs to be reviewed and streamlined in order to promote security of supply for the U.S. and jobs for U.S. contractors and labor.

The global crude oil market is highly liquid and efficient, with the refining values of particular types of crude oil established through transactions negotiated by many buyers and sellers. The result is a market value established for a given type of crude oil at a given location. Thus, consumers should be indifferent about whether we refine our own crude oil or purchase similar crude oil in the open market. However, consumers would be worse off if we did not process the optimal crude for each refinery, which is what would occur if we processed only our equity crudes in our refineries.

(b) If your company refined only the oil that it actually produced, rather than buying and selling on the world market, what price could it charge for a gallon of gas today and remain profitable?

It is not feasible for ConocoPhillips to rely solely on its own oil production to produce refined products. In 2007, ConocoPhillips produced approximately 360,000 barrels of oil per day in the United States, but processed approximately 1.9 million barrels per day in its U.S. refinery operations. In addition, refinery configurations, equipment, process complexity, metallurgy, etc. vary between refineries so certain crude oil types may process well in one refinery but not be suitable for processing in another.

Moreover, if we and other refineries processed only the crude we produced, there would be a mismatch between the quality and location of the crude versus what is optimal for each refinery. As a consequence, our costs of production would increase and our ability to produce as much of the gasoline and diesel fuel that the market demands would decline, leading to supply short-falls and higher prices.

ConocoPhillips purchases crude that best matches each refinery's configuration while seeking to minimize transportation cost. Thus, we generally refine the crude oil that is the best fit for a specific refinery regardless of whether we or someone else produce it.

The global crude oil market is highly liquid and efficient, with the refining values of particular types of crude oil established through transactions negotiated by many buyers and sellers. The result is a single market value established for a given type of crude oil at a given location. Thus, consumers should be indifferent about whether we refine our own crude oil or purchase similar crude oil in the open market. Consumers would be worse off if we do not process the optimal crude for each refinery, which is what would occur if we processed only our equity crudes in our refineries.

3. How much has each of your companies spent, directly or indirectly, on studies and reports on climate change? Please specify the studies and reports produced with your companies direct or indirect support.

ConocoPhillips has funded directly, either on our own or in partnership with others, studies and reports that could be considered related to climate change. See the table on the next page for a listing of ConocoPhillips-funded studies and reports. These studies and reports cover a variety of topics including economics, policy and technology. To the best of our knowledge, none of the studies and reports that ConocoPhillips has funded directly relate to the science of global warming. We have not included the studies that we have conducted related to technology development or evaluations of ways to reduce emissions and improve energy efficiency in our operations. Nor have we included membership dues or unrestricted contributions to trade groups or educational institutions.

ConocoPhillips Direct Funding of Climate Change-related Studies and Reports			
Study / Report	**Year**	**Authors / Study conducted by**	**USD (COP Share)**
Funded only by COP			
Energy Market Consequences of An Emerging U.S. Carbon Management Policy	2008	Baker Institute	$200,000
Market Conditions and the Pass-Through of Compliance Costs in a Carbon Emission Cap-and-Trade Program	2008	NERA	$75,000
Confidential Internal Impact & Risk Assessment Study	2006-08	CH2MHill	$349,433
Funded by COP in Partnership with Others			
Various climate change policy studies	2007-08	Duke University Climate Change Policy Partnership (CCPP)	$500,000
California Chamber Study - Cost effectiveness of AB32	2006	American Council for Capitol Formation	$1,000
California Chamber Study - Economic Analysis of CA Climate Action Team proposals	2006	Sacramento Regional Research Institute	$1,600
Various industry trade association studies on climate policy and economics	2007-08	Various	$134,200
CoalFleet Program	2006-08	Electric Power Research Institute (EPRI)	$100,000
ICO2N - Integrated CO2 Network (a proposed CCS system)	2007-08	ICO2N	$100,000
UK: A Carbon Capture and Storage Network for Yorkshire and Humber	2007-08	Yorkshire Forward (UK local government Regional Development Authority) and 7 partner companies	$14,000
UK: Scottish Carbon Capture & Storage Study	2008-09	Scottish government and industry partners	$30,000
Best Practice Guidance on Modeling of Carbon Dioxide Releases from Transportation Pipelines	2007-08	UK Energy Institute and partner companies	$10,000

SENATOR KOHL'S FOLLOW-UP QUESTIONS FOR HEARING ON "EXPLORING THE SKYROCKETING PRICE OF OIL"

For John E. Lowe

1. We all recognize that the anti-competitive actions of the OPEC cartel have an important role to play in higher gas prices. In your estimation what would a gallon of gas cost if there was no supply limits imposed by the OPEC cartel?

The primary reason that crude prices are relatively high today is because of the tight oil supply and demand balance and concerns about the sufficiency of future supplies. While OPEC can influence prices by increasing or decreasing production, the ability of OPEC members to quickly lower prices is limited. Most analysts agree that with the exception of Saudi Arabia, OPEC is producing at or near its limit today. In recent years, the sharp increases in economic and oil demand growth in developing countries and supply disruptions in countries like Nigeria and Iraq have resulted in OPEC nations having limited excess crude production capacity. Therefore, we expect that OPEC nations have limited ability in the near-term to lower prices by increasing supply.

2. The FTC has testified to the Antitrust Subcommittee that 85 % of the variability in the cost of gasoline is caused by changes in the price of crude oil. Do you agree?

We agree that changes in the price of crude oil are responsible for most of the variability in the cost of gasoline. We have not done any independent research on this subject but we are aware of a study from the Colorado School of Mines that concludes that 97 percent of the variation in the pre-tax price of gasoline between 1918 and 2006 was caused by changes in crude oil prices.[1]

3. In your opinion, how much of the price of crude oil is due to the speculation by oil traders?

We believe that some investors are diversifying financial risks in their stock and bond portfolios by investing in crude oil and other commodity futures but we have no way of quantifying how much, if any, impact they are having on the price.

[1] Carol Dahl, Colorado School of Mines, "What Goes Down Must Come Up: A Review of the Factors Behind Increasing Gasoline Prices, 1999-2006," April 2007

The underlying cause of most of the price increase, however, is that oil supply growth is challenged in the face of significant demand growth in developing countries. One of the primary reasons for this dynamic is that major energy companies such as ConocoPhillips have direct access to only 7 percent of the world's oil and natural gas resources, down from 85 percent in the 1960s. If U.S. policymakers want to increase supply availability and decrease dependence on foreign sources of energy, they should improve access to resources in the United States and refrain from actions that would reduce the competitiveness of U.S. oil and gas companies. Using more domestic resources would also improve the nation's economic security. The $11 trillion-dollar market value of these potential resources at current prices could be far better utilized here at home to gainfully employ thousands of Americans, rather than be transferred to other countries to pay for oil imports.

4. Many experts believe that one important reason for excessive speculation in oil is low margin requirements in oil commodity trading. Unlike with respect to many other commodities and the stock market, a trader can speculate in this market with very small amounts of money, as margin requirements are as low as 8 percent. Do you agree with these experts that margin requirements should be increased in oil trading markets in order to reduce speculation?

We understand the margin to which you are referring to be the initial margin requirement for traders opening a position in crude oil futures. It is important to understand that, as a trader accumulates a loss in his or her position, additional margin requirements are generally imposed on the trader. It is possible that increasing the margin for traders would only impact the smaller participants that are not well capitalized or drive more traders to the non-regulated OTC (over-the-counter) market.

Margin requirements should be set based on the needs of the clearing mechanism, which is designed to protect individual market participants from potential defaulting counterparties. Effecting margin requirements for other purposes could have unintended consequences that harm the market.

5. Much of the crude oil ConocoPhillips and the other U.S. oil companies refine into gasoline and other petroleum products comes from their own oil fields. Overall, the U.S. produces about 40% of the crude oil it consumes. The cost to produce this oil domestically should not be affected in any way by the rising worldwide price of crude oil. So why should the rising price of crude oil on the international markets lead to higher prices with respect to petroleum products refined from your own domestically produced oil? Are the oil companies just profiteering with respect to the oil that comes from the oil fields they own in the United States?

The question seems to incorrectly assume that producers of oil in the United States encounter significantly lower marginal production costs and should, therefore, be selling that production at prices less than the prevailing market price. Costs in the United States are among the highest in the world. According to J.S. Herold, finding and developing costs in the U.S. are more than double the average for the world. Basins available to the industry are very mature. New developments are smaller, more remote from existing infrastructure and more technologically complex. More often the oil and natural gas is of poorer quality and from deeper accumulations. It also takes a large amount of capital to maintain production in small fields with declining production. Deep water offshore oil is expensive to develop and requires new infrastructure and complex technologies and processes. With Arctic conditions, operating and development costs in Alaska are very high and the newer fields have heavier oil (less valuable) and are more distant from the pipeline. It would help if the government made new areas available where leasing has been off limits or restricted.

The vast majority of ConocoPhillips' refined products in the United States are produced from crude oil purchased on the worldwide open market rather than from crude oil that we produce in the United States. For example, in 2007, ConocoPhillips produced approximately 360,000 barrels per day of crude oil in the United States, but only 38 percent of that volume was processed in ConocoPhillips' U.S. refineries or nearly 140,000 barrels per day. Given that we processed approximately 1.9 million barrels per day in our U.S. refineries, less than 10 percent of the barrels we processed constituted our equity crude.

We generally do not refine crude oil that we produce unless that crude is the best fit for a specific refinery and transportation costs are economical. If we refined all the crude that we produced, there would be a mismatch between the quality and location of the crude versus what is optimal for each of our refineries, leading to supply short-falls, reductions in refining capacity as a consequence of the mismatched crude characteristics, higher transportation costs and therefore higher prices.

In order to purchase the remaining crude oil for our U.S. refineries, we turn to the open market, where crude oil is bought and sold on a global basis, and market prices are established by many buyers and sellers based on their perceptions of current and future supply and demand fundamentals. Production costs also play an important role in price, because economics dictate that long-term oil prices will settle at the highest cost required to supply incremental barrels of oil needed to satisfy demand. Several financial analysts have calculated that marginal reserve replacement costs today are at $85-$90 per barrel and continuing to rise. Thus, while temporary changes in supply and demand fundamentals may result in prices above or below the long-term "equilibrium" level, the long-term "equilibrium" price is significantly higher than it has been in the past. As with other commodities bought and sold on a worldwide basis, all buyers pay essentially the same market price, adjusted for differences in transportation costs and quality, regardless of where it is produced or consumed. Were that not the case, domestic buyers could not compete with foreign buyers and the U.S. would experience oil shortages.

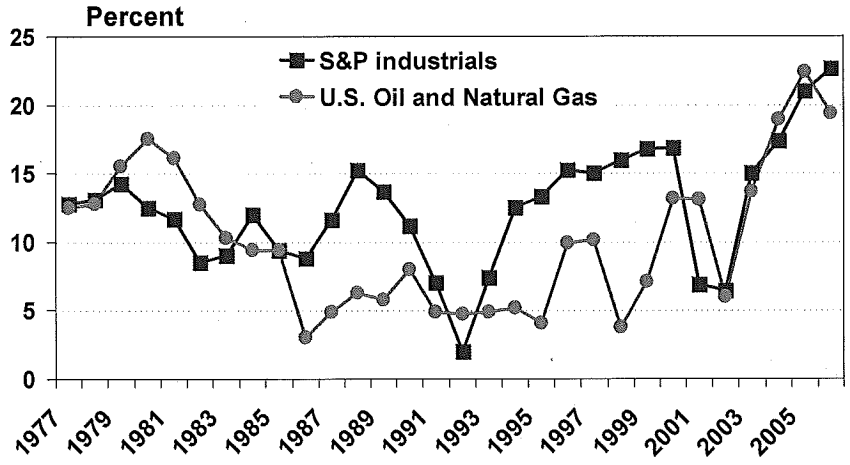
It is also incorrect to assume that the cost of producing crude oil in the United States—or the cost of producing refined products—is not affected by worldwide oil prices. Higher worldwide oil prices have led to significant increases in exploration and production activities around the world, as producers seek to add supply in response to increased demand. Similarly, higher oil and refined products prices have led to significant increases in refinery expansions, both in the United States and around the world. This increased development activity has led to significant inflation in costs for, among other things, steel, drilling rigs, compressors, pumps and contractor services. For example, steel costs have doubled since 2001. Higher energy prices have also led to increases in refining costs, as refineries are large consumers of natural gas and electricity. As a consequence, production and refining costs in the United States have risen significantly.

Despite the higher crude prices in recent years, the oil and natural gas industry's earnings as a percentage of sales and returns on investments are in line with other industries as shown in the two figures below.

Source: Based on company filings with the federal government as reported by U.S. Census Bureau and Oil Daily

Industry Return on Investment

Net Income / Net Investment in Place



Source: U.S. Department of Energy, Energy Information Administration, Performance Profiles of Major Energy Producers, various issues and 2006 S&P figure compiled by PWC from Compustat data

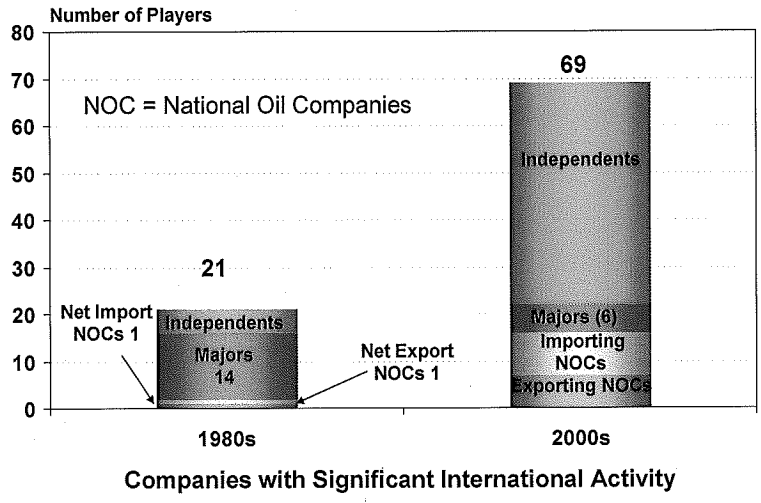
6. In the last 15 years there has been a tremendous amount of consolidation in the oil industry – in its 2004 report, the GAO counted 2600 mergers and acquisitions in this industry since the 1990s alone. Indeed, almost all the companies represented here today are a product of these mergers. During this time, the FTC has approved most of the oil industry mergers it has reviewed, including the gigantic ones like Exxon/Mobil, Chevron/Texaco, and Conoco/Phillips. While each one of these mergers may not have seemed problematic when reviewed, taken as a whole these mergers have greatly increased concentration in the industry. And the GAO concluded that these mergers have raised gasoline prices. The GAO is currently updating its 2004 study at the request of me and some of my colleagues.

What is your view of the effects of these mergers on competition in your industry and the price of petroleum products? And please predict whether we are likely to see even more consolidation in the years ahead.

We believe that it is implausible that mergers have enabled oil and gas firms to influence prices. Global competition is much greater today than it was before these mergers, even though there are fewer major integrated oil companies. In the 1980s, for example, there were 21 active global competitors dominated by publicly-traded majors. In the 2000s, there are more than three times the number of global competitors, and the majors constitute a minority (see figure on the next page). In addition, rising resource nationalism and the growing sophistication and reach of national oil companies outside of their borders will make it even more difficult for publicly-traded international oil companies to compete for opportunities around the world.

Global Competition: 1980s vs. 2000s

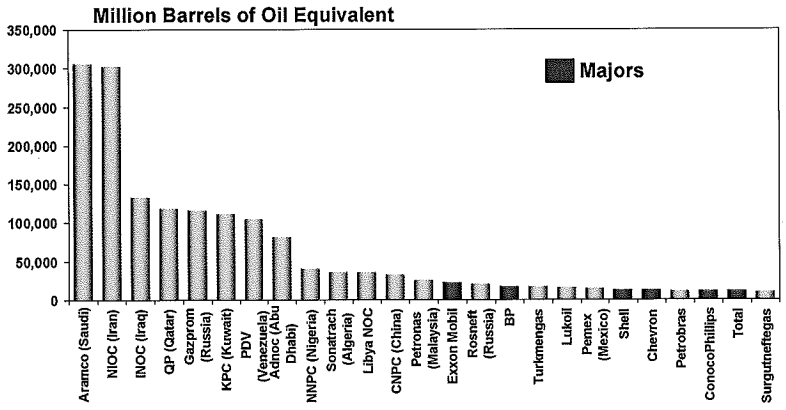
Emergence of NOCs & Independents as International Competitors



Source: PFC Energy & Internal Company data

There is a common misperception that the oil majors control a substantial portion of the world's oil and natural gas reserves. However, the figure below shows that major international oil companies are not so large compared to the national oil companies. In fact, the top six major companies together hold only 4.5 percent of the world's oil and natural gas reserves.

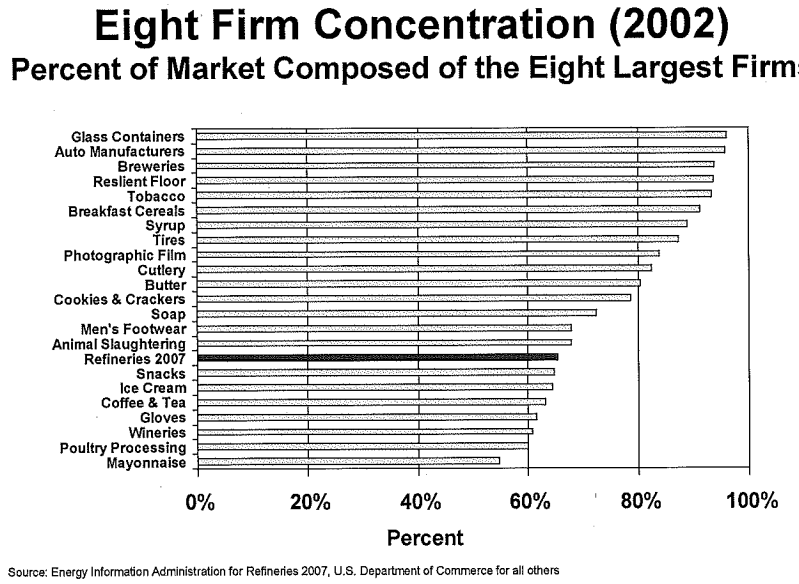
Top 25 Oil, NGL and Natural Gas Reserves



Source: Energy Intelligence Group, Ranking the World's Oil Companies 2008

Concentration in domestic crude oil production and ownership of crude oil reserves remained at very low levels between 1990 and 2002 as measured by the Herfindahl-Hirschman Index (HHI), which equals the sum of the squared market shares of all market participants in the relevant product and geographic market. An HHI of 1,000 or less is considered to be unconcentrated. In 2002, domestic crude oil production had an HHI of 297, up only slightly from 284 in 1990.[2] While we do not have data for all market participants to calculate an HHI for 2007, we can say that the top eight domestic crude oil and natural gas liquids producers had a 42 percent share of domestic production, which is lower than the percent shares for all of the industries shown on the industry concentration chart below. In fact, all of the 43 oil producers in the U.S. covered in the data base,[3] account for only 54 percent of domestic oil production. There are a large number of small producers in the United States.

The U.S. refining industry is also highly competitive and relatively unconcentrated. In 2006, the Federal Trade Commission (FTC) concluded that "the refining industry remains relatively unconcentrated" and that "no refiner has a substantial share of crude oil distillation refining capacity, either nationally or regionally."[4] In addition, as the chart below shows, concentration in the refining industry is much lower than for many other industries in the United States.



[2] Timothy J. Muris and Richard G. Parker, "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, pages 11 and 13

[3] Evaluate Energy

[4] Federal Trade Commission, "Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases," Spring 2006, page 16

In addition, we disagree with the assertion that mergers have increased gasoline prices. The FTC criticized the GAO's 2004 report for, "(1) methodological mistakes that make the Report's quantitative analysis wholly unreliable, (2) critical factual assumptions that are both unstated and unjustified, and (3) conclusions that lack any quantitative foundation."[5] The FTC was established in 1914 to be the vanguard on uncompetitive practices. In comparison, GAO's expertise in this subject matter is limited. The GAO study did not take into account the numerous other factors besides mergers that caused gasoline prices to increase during the period studied (e.g., supply disruptions, seasonality, boutique fuels, higher cost of manufacturing clean fuels).

On the contrary, we believe that the efficiency improvements resulting from the mergers have probably lowered consumer prices relative to what they would have been otherwise. In my written testimony, I addressed in detail how the merger of Conoco Inc. and Phillips Petroleum Company has benefited consumers by reducing costs, improving the efficiency of our business, and increasing supplies of petroleum products for American consumers. In fact, we estimated cumulative cost and efficiency savings of approximately $1.9 billion in 2004 resulting from this merger.

Mergers have been driven by eroding resource access and the need for companies to continue to undertake increasingly large and complex exploration and development projects in order to keep pace with rising world demand. For U.S. companies to compete in an environment of mega projects, increasingly non-conventional and complicated oil and natural gas reservoirs and increasing national oil company control of resources, they require scale, technical innovation and financial resources commensurate with the size, complexity and risk of those projects. These market conditions have been the primary motivation for past mergers; if those conditions persist, it is possible companies will need to become even larger and more diverse in order to compete with the national oil companies.

[5] Federal Trade Commission letter to GAO, "Energy Markets: Effects of Mergers and Market Concentration in the U.S. Petroleum Industry," May 2004, Appendix IV, page 153

U.S. Senate Judiciary Committee
Hearing on "Exploring the Skyrocketing Price of Oil"
Written Questions from Senator Richard J. Durbin

Questions for all witnesses

1. Please provide a table displaying, for each year since 2000:
• the names of the top five most highly compensated individuals in your company for that year (with compensation defined to include salary, bonuses, benefits, stock options, in-kind gifts, deferred compensation, and other remuneration); and
• the amount of compensation received by each of those individuals, broken down by amount and type of compensation.

We report the compensation of our CEO, CFO and three other most highly compensated officers in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") each year in our publicly available filings with the SEC. In response to your request, we have included, as Exhibit A, information which reflects the compensation reported for these executives in the Summary Compensation Table of our proxy statements relating to our annual meeting of stockholders for all years since 2000. In our publicly available filings, our Summary Compensation Tables include important information in the accompanying narrative and footnotes to the Summary Compensation Table and, therefore, we would direct your attention to this information in our proxy statements. To assist your review of this information, please note the following related to changes in our business and in the SEC rules applicable since 2000.

- For years prior to 2003, the compensation amounts reproduced relate to compensation paid to executives of Phillips Petroleum Company, the predecessor company predating the merger of Conoco Inc. and Phillips Petroleum Company.

- For years prior to 2004, beneath the compensation amounts reproduced, we report the number of options awarded to each executive, as the SEC rules did not, at that time, call for the dollar value of an executive's option awards to be included in the summary compensation table for those periods.

- For all years, compensation amounts voluntarily deferred or contributed by the Company to a deferred compensation plan by the specified executives are included in the Summary Compensation Table; however, in accordance with SEC rules, earnings on these deferred amounts are only included for years subsequent to 2005.

- For years after 2005, the amounts considered by our Compensation Committee for annual or program-specific awards both in setting targets and making awards are not necessarily reflected in the amounts shown on the "Stock Awards" and "Option Awards" rows of the Summary Compensation Tables reproduced in Exhibit A. This difference occurs primarily because the numbers in the "Stock Awards" and "Option Awards" rows do not reflect solely the values of awards made for a particular year while the amounts considered by our Compensation Committee reflect solely the values of awards made for a particular year or program. These numbers in these rows include the Financial Accounting Standards Board Statement No. 123(R), "Share-Based Payment" (FAS 123(R)) expense recognized by us in the year for all outstanding stock and option awards, which, because of the current "hold-until-retirement" feature of our restricted stock/restricted stock unit programs, can be a substantial amount. Because we currently require our executives to hold restricted stock and restricted stock unit awards for an extended holding period (until retirement for program periods commencing prior to 2009 or, for program periods ending after 2010, the earlier of retirement and at least five years following completion of the program period), any appreciation in our stock price during a given year results in our recognizing the value of such appreciation with respect to certain previously-earned awards in our financial statements, and therefore, in the compensation amounts reported above. Therefore, for your convenience, we have also included, as Exhibit B, supplemental tables reproduced from our proxy statement in each of the last two years reconciling the targeted and awarded amounts considered by our Compensation Committee under each of our compensation programs for each of the executives with the amount that is required to be reported for these periods under the SEC rules for the Summary Compensation Tables, as reproduced in Exhibit A.

With respect to benefits afforded these individuals, our senior executives participate in the same basic benefits package as our other U.S. salaried employees. This includes a basic benefits package consisting of retirement, medical, dental, vision, life insurance and accident insurance plans, as well as flexible spending arrangements for health care and dependent care expenses. Perquisites provided to these individuals, that are not broadly available to U.S. salaried employees, make up a portion of "All Other Compensation" in Exhibit A.

Summary Compensation Table Disclosure

Exhibit A

2000 (2001 Proxy)	J.J.Mulva Chairman of the Board & CEO	J.A. Carrig SVP, CFO & Treasurer	T.C. Morris Special Assignment to CEO	B.Z. Parker EVP	J.B. Whitworth EVP, General Counsel & Chief Admin Officer
Salary	$ 1,045,833	$ 294,082	$ 441,500	$ 497,253	$ 398,497
Bonus	$ 4,516,875	$ 677,273	$ 977,209	$ 553,041	$ 960,962
Long-Term Incentive Payout	$ 3,102,763	$ 283,985	$ 897,867	$ 725,257	$ 961,582
Restricted Stock Awards	$ 2,195,854	$ 1,000,012	$ -	$ -	$ 800,009
All Other Compensation	$ 100,808	$ 16,415	$ 16,619	$ 15,769	$ 16,619
Total	$ 10,962,133	$ 2,271,767	$ 2,333,195	$ 1,791,320	$ 3,137,669
Options granted[1]	335,600	45,600	48,400	63,200	53,000

2001 (2002 Proxy)	J.J.Mulva Chairman of the Board & CEO	J.A. Carrig SVP & CFO	J.E. Lowe SVP	B.Z. Parker EVP	J.B. Whitworth EVP, General Counsel & Chief Admin Officer
Salary	$ 1,281,250	$ 366,856	$ 366,856	$ 522,450	$ 492,823
Bonus	$ 3,630,000	$ 553,172	$ 581,328	$ 450,073	$ 680,089
Long-Term Incentive Payout	$ 3,839,655	$ 639,483	$ 493,553	$ 951,787	$ 1,061,766
Restricted Stock Awards	$ 12,955,000	$ -	$ -	$ -	$ -
All Other Compensation	$ 151,155	$ 41,677	$ 17,995	$ 17,145	$ 17,995
Total	$ 21,857,060	$ 1,601,188	$ 1,459,732	$ 1,941,455	$ 2,252,673
Options granted[1]	478,000	2,800	2,800	-	6,200
Special Award - Stock Options*	3,000,000	70,200	70,200	84,000	85,400

2002 (2003 Proxy)	J.J.Mulva President and CEO	A.W. Dunham Chairman	R.E. McKee III EVP, Exploration and Production	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	R.A. Harrington SVP, Legal, and General Counsel
Salary	$ 1,375,000	$ 1,358,336	$ 670,000	$ 666,000	$ 409,360
Bonus	$ 1,612,000	$ 26,640,502	$ 22,900,821	$ 20,272,096	$ 715,000
Long-Term Incentive Payout	$ 14,977,500	$ -	$ -	$ -	$ -
Restricted Stock Awards	$ -	$ 2,667,543	$ 386,358	$ 386,358	$ -
Other Annual Compensation	$ 71,086	$ 271,487	$ 26,455	$ 20,172	$ 16,710
All Other Compensation	$ 108,675	$ 163,251	$ 80,400	$ 79,920	$ 49,123
Total	$ 18,144,261	$ 31,101,119	$ 24,064,034	$ 21,424,546	$ 1,190,193
Options granted[1]	425,800	3,861,536	285,298	285,298	126,916

2003 (2004 Proxy)	J.J.Mulva President and CEO	A.W. Dunham Chairman	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production	J.A. Carrig EVP, Finance and CFO
Salary	$ 1,479,167	$ 1,479,168	$ 775,000	$ 540,000	$ 575,833
Bonus	$ 3,500,000	$ 10,340,690	$ 1,289,321	$ 1,051,383	$ 982,153
Long-Term Incentive Payout	$ 1,632,363	$ 1,632,363	$ 523,648	$ 387,355	$ 299,621
Other Annual Compensation	$ 161,504	$ 203,620	$ 13,128	$ 2,548	$ 987
All Other Compensation	$ 126,749	$ 126,749	$ 65,090	$ 230,440	$ 47,554
Total	$ 6,899,783	$ 13,782,590	$ 2,666,187	$ 2,211,726	$ 1,906,148
Options granted[1]	606,000	606,000	251,600	151,800	122,200

Summary Compensation Table Disclosure

Exhibit A

2004 (2005 Proxy)	J.J.Mulva Chairman, CEO & President	A.W. Dunham Chairman (to September 30, 2004)	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production	J.A. Carrig EVP, Finance and CFO
Salary	$ 1,500,000	$ 1,521,782	$ 812,500	$ 630,000	$ 606,000
Bonus	$ 4,100,000	$ 3,064,210	$ 1,576,775	$ 1,366,420	$ 1,123,983
Long-Term Incentive Payout	$ -	$ 7,026,746	$ -	$ -	$ -
Other Annual Compensation	$ 133,753	$ 553,929	$ 13,980	$ 96,855	$ 3,232
All Other Compensation	$ 128,641	$ 100,735	$ 69,678	$ 220,808	$ 51,952
Total	$ 5,862,394	$ 12,267,402	$ 2,472,933	$ 2,314,083	$ 1,785,167
Options granted[1]	745,200	745,200	214,140	193,600	126,200
Grant date value of options granted	$ 6,811,128	$ 6,811,128	$ 1,834,503	$ 1,769,504	$ 1,153,468

2005 (2006 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.E. Lowe EVP, Strategy Planning and Corporate Affairs	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production
Salary	$ 1,500,000	$ 651,000	$ 538,333	$ 846,500	$ 709,167
Bonus	$ 6,800,274	$ 2,176,761	$ 1,925,174	$ 1,500,980	$ 1,136,397
Long-Term Incentive Payout	$ 22,533,686	$ 3,596,486	$ 3,079,343	$ 6,285,580	$ 3,952,472
Other Annual Compensation	$ 112,355	$ 3,099	$ 1,121	$ 11,417	$ 7,737
All Other Compensation	$ 155,305	$ 67,433	$ 55,766	$ 87,664	$ 73,483
Total	$ 31,101,620	$ 6,494,779	$ 5,599,737	$ 8,732,141	$ 5,879,256
Options granted	392,800	104,600	70,200	144,600	144,600
Grant date value of options granted	$ 4,898,216	$ 1,304,362	$ 875,394	$ 1,803,162	$ 1,803,162

2006 (2007 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.L. Gallogly EVP, Refining, Marketing and Transportation	R.L. Limbacher EVP, Exploration and Production	W.B. Berry EVP, Exploration and Production
Salary	$ 1,500,000	$ 695,000	$ 612,747	$ 613,668	$ 817,000
Non-Equity Incentive Plan Compensation	$ 3,383,775	$ 1,017,967	$ 882,037	$ -	$ 804,377
Option Awards	$ 6,340,259	$ 1,698,868	$ 532,879	$ 342,673	$ 1,388,747
Stock Awards	$ 26,396,778	$ 6,238,265	$ 1,867,784	$ 2,580,936	$ 379,629
Change in Pension Value and Nonqualified Deferred Compensation Earnings	$ 5,449,910	$ 1,931,140	$ 103,786	$ 894,505	$ 2,289,243
All Other Compensation	$ 373,302	$ 101,195	$ 170,455	$ 131,079	$ 111,645
Total	$ 43,444,024	$ 11,682,435	$ 4,169,688	$ 4,562,861	$ 5,790,641

2007 (2008 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.L. Gallogly EVP, Refining, Marketing and Transportation	J.E. Lowe EVP, Exploration and Production	S.L. Cornelius SVP, Strategy Planning and Corporate Affairs
Salary	$ 1,500,000	$ 817,500	$ 858,666	$ 660,400	$ 515,000
Non-Equity Incentive Plan Compensation	$ 3,442,500	$ 1,186,291	$ 1,237,698	$ 888,638	$ 596,607
Option Awards	$ 5,542,175	$ 1,632,457	$ 2,301,421	$ 670,000	$ 466,048
Stock Awards	$ 37,949,152	$ 11,224,184	$ 3,261,590	$ 2,634,613	$ 1,584,780
Change in Pension Value and Nonqualified Deferred Compensation Earnings	$ 1,727,552	$ 1,424,708	$ 1,046,381	$ 705,492	$ 1,088,376
All Other Compensation	$ 387,647	$ 131,239	$ 135,002	$ 119,749	$ 84,684
Total	$ 50,549,026	$ 16,416,379	$ 8,840,758	$ 5,678,892	$ 4,335,495

(1) On June 1, 2005, our common stock split on a 2-for-1 basis by means of a 100% stock dividend payable to stockholders of record as of May 16, 2005. As a result, the number of shares that may be acquired upon exercise of the stock options reported herein reflects the stock split.

Exhibit B

Supplement to Summary Compensation Table

2006

	J.J. Mulva		J.A. Carrig		J.L Gallogly		R.L. Limbacher		W.B. Berry	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Salary	$ 1,500,000	$ 1,500,000	$ 695,000	$ 695,000	$ 612,750	$ 612,747	$ 612,750	$ 613,668	$ 817,000	$ 817,0
VCIP - Feb 2007	2,025,000	3,383,775	674,150	1,017,967	594,367	882,037	-	-	792,490	804,3
Stock Options - 2006	4,330,368	4,330,368	1,264,635	1,264,635	1,137,600	1,137,600	-	-	1,486,953	1,486,9
Stock Award	-	-	-	-	-	-	4,228,105	4,228,105	-	-
PSP II - Feb 2007	3,520,000	17,367,967	766,920	4,243,300	-	-	-	-	1,045,800	3,508,8
Total Compensation Awarded in 2006	$ 11,375,368	26,582,110	$ 3,400,705	7,220,902	$ 2,344,717	2,632,384	$ 4,840,855	4,841,773	$ 4,142,243	6,617,1
Items attributable to FAS 123(R):										
-Mark to market and reconciliations on prior awards	N/A	12,813,060	N/A	2,313,962	N/A	-	N/A	202,627	N/A	(1,017,5
-Accruals on future stock awards	N/A	5,484,114	N/A	1,698,270	N/A	1,867,784	N/A	-	N/A	1,683,9
-Amounts recognized in other periods on PSP II or restricted stock awards	N/A	(9,268,363)	N/A	(2,017,267)	N/A	-	N/A	(1,849,796)	N/A	(3,795,5
-Expense for prior year option awards	N/A	2,009,891	N/A	468,721	N/A	-	N/A	342,673	N/A	665,5
-Amount to be recognized in future years on stock option awards	N/A	-	N/A	(34,488)	N/A	(604,721)	N/A	-	N/A	(763,7
Other items:										
Change in pension value	N/A	5,449,910	N/A	1,931,140	N/A	103,786	N/A	894,505	N/A	2,289,2
All other compensation	N/A	373,302	N/A	101,195	N/A	170,455	N/A	131,079	N/A	111,6
Amount per Summary Compensation Table	N/A	$ 43,444,024	N/A	$ 11,682,435	N/A	$ 4,169,688	N/A	$ 4,562,861	N/A	$ 5,790,6

2007

	J.J. Mulva		J.A. Carrig		J.L Gallogly		J.E. Lowe		S.L. Cornelius	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Salary	$ 1,500,000	$ 1,500,000	$ 817,500	$ 817,500	$ 858,666	$ 858,666	$ 660,400	$ 660,400	$ 515,000	$ 515,000
VCIP - Feb 2008	2,025,000	3,442,500	792,975	1,186,291	832,906	1,237,698	605,365	888,638	417,150	596,607
Stock Options - 2007	4,937,500	4,938,290	1,442,125	1,443,088	1,695,275	1,696,700	975,150	975,156	638,400	639,388
PSP III - Feb 2008	4,620,000	18,161,826	1,317,803	5,180,498	989,000	3,887,556	907,168	3,566,226	592,933	2,330,994
Total Compensation Awarded in 2007	13,082,500	28,042,616	4,370,403	8,627,377	4,375,847	7,680,620	3,148,083	6,090,420	2,163,483	4,081,989
Items attributable to FAS 123(R):										
-Mark to market, amortization and true-ups on prior awards	N/A	25,498,172	N/A	5,344,202	N/A	-	N/A	2,634,613	N/A	1,233,949
-Accruals on future awards	N/A	5,314,976	N/A	1,552,377	N/A	1,734,122	N/A	-	N/A	350,831
-Amount to be recognized in other periods on PSP III	N/A	(11,025,822)	N/A	(852,893)	N/A	(2,360,088)	N/A	(3,566,226)	N/A	(2,330,994)
-Amortization of prior year option awards	N/A	603,885	N/A	189,369	N/A	604,721	N/A	378,353	N/A	243,986
-Amount to be recognized in future years on stock option award	N/A	-	N/A	-	N/A	-	N/A	(683,509)	N/A	(417,326)
Other items:										
Change in pension value	N/A	1,727,552	N/A	1,424,708	N/A	1,046,381	N/A	705,492	N/A	1,088,376
All other compensation	N/A	387,647	N/A	131,239	N/A	135,002	N/A	119,749	N/A	84,684
Amount per Summary Compensation Table	N/A	50,549,026	N/A	16,416,379	N/A	8,840,758	N/A	5,678,892	N/A	4,335,495

2. Please provide a table displaying the following information for your company for each year since 2000:

- **revenue**
- **net income**
- **return on equity**
- **total capital investment**
- **oil development investment**
- **refinery investment**
- **alternative energy research and development**
- **cash holdings**
- **marketing expenses**

$Millions unless otherwise noted	**2007**	**2006**	**2005** (1)	**2004** (1)	**2003** (1)	**2002** (1,2)	**2001** (1,2)	**2000** (1,2)
Revenue	187,437	183,650	179,442	135,076	104,246	56,748	24,892	22,155
Net income	11,891	15,550	13,529	8,129	4,735	(295)	1,661	1,862
Return on equity	14%	23%	28%	21%	14%	-1%	15%	31%
Total capital investment	12,898	16,377	11,895	9,663	6,232	4,480	3,044	2,225
Oil development investment (3)	10,988	10,248	6,947	5,297	4,508	3,276	2,516	1,677
Refinery investment (4)	1,440	3,016	1,747	1,371	1,179	840	428	217
Alternative energy research and development (5)	65	71	74	84	68	65	26	26
Cash holdings	1,456	817	2,214	1,387	490	307	142	149
Marketing expenses (6)	84	87	84	96	30	3	7	-

(1) Does not include Burlington Resources Inc. , which was acquired in 2006
(2) Pre-merger - Phillips Petroleum Company only
(3) Includes both oil and natural gas investments
(4) Includes refinery, marketing and transportation investments
(5) Does not include non-R&D spending for alternative energy
(6) The period from 2001 to 2003 includes advertising & promotional expenses for Corporate and Refining & Marketing business segments, which traditionally account for the majority of such expenses. Data for 2000 is currently unavailable.

Additional information

$Millions unless otherwise noted	**2007**	**2006**	**2005** (1)	**2004** (1)	**2003** (1)	**2002** (1,2)	**2001** (1,2)	**2000** (1,2)
Net income/Revenues (cents per $ of sale)	6.3	8.5	7.5	6.0	4.5	(0.5)	6.7	8.4
Reserve Replacement (%) (3)	159%	305%	230%	206%	106%	750%	135%	1127%
Reinvestment rate (%)	108%	105%	88%	119%	132%	-	183%	120%
Taxes paid	14,383	15,165	9,826	5,884	3,883	2,054	2,067	1,527

(1) Does not include Burlington Resources Inc., which was acquired in 2006
(2) Pre-merger - Phillips Petroleum Company only
(3) 2007 excludes the expropriation of the company's Venezuelan oil projects, 2006 includes the Burlington acquisition and 2002 included the impact of the merger of Conoco Inc. and Phillips Petroleum Company

It is important to understand that the absolute dollars of profit reflect the large size and scale of companies in this industry, which is required to make the enormous capital investment necessary to replenish depleting supplies. For example, a single large offshore platform in the Gulf of Mexico designed to operate in thousands of feet of water costs more than $1 billion to develop. Our earnings need to be large in absolute terms to support the scale of investment required.

The exploration and production business has an additional challenge of needing to increase reserves sufficiently every year to offset the natural decline in production and to grow. The second table above indicates that ConocoPhillips has generally been more than replacing its production.

In order to replace reserves and grow production, most of our earnings need to be reinvested in the business. ConocoPhillips earned nearly $12 billion in 2007, but spent close to $13 billion in capital expenditures and investments as shown in the first table above. We provided a second table with data that you did not request but that is relevant to our response. The second table shows our capital reinvestment rate as a percentage of net income. Between 2003 and 2007, our average reinvestment rate was 106 percent of our net income.

In addition, ConocoPhillips' rate of profitability – or its profit margin – is well below that of firms in other industries. ConocoPhillips' profit margin (net income / revenues) in 2007 of 6.3 cents per dollar of sales (shown on the second table) is approximately 14 percent below the 7.3 cent average profit margin for the entire manufacturing sector in 2007. As similarly outlined in my written testimony, the return on investment for the oil and natural gas industry, while currently comparable to average returns for the S&P industrials, lagged those returns for many years. Since 1977, the refining segment in particular has suffered from weaker returns on investment than S&P 500 industrial companies for nearly all years and actually had negative returns in several years, most recently in 2002.

We also included our taxes paid on the second table to demonstrate that our industry is already heavily taxed. The table shows that ConocoPhillips paid an estimated $14 billion in taxes during 2007, which was more than 20 percent higher than our net income. In a recent survey of 80 diverse American companies, ConocoPhillips' effective tax rate between 2004 and 2006 of 43.6 percent was the highest, about 14 percent higher than the average. Income taxes paid by domestic energy producers have already increased by 519 percent between 2002 and 2006.[6] Income taxes are only one of the ways we contribute to government revenues. We also pay royalties, production and excise taxes, and lease bonuses, the latter of which are paid whether a company discovers hydrocarbons or not. When you take all these other forms of government payment into account, our effective tax rates are much higher. For example, our incremental fiscal-take rate[7] in Alaska is about 90 percent at recent oil prices.

3. Several weeks ago, the Wall Street Journal's *Market Watch* quoted an industry analyst as estimating that about $25 to $30 of the price per barrel of crude oil may be attributed solely to speculation.

a) Does your internal research support that analysis?

We do not conduct internal research on this issue. However, we believe that some investors are diversifying financial risk in their stock and bond portfolios by investing in crude oil and other commodity futures but we have no way of quantifying how much impact, if any, they are having on the price.

The underlying cause of most of the price increase, however, is that oil supply growth is challenged in the face of significant demand growth in developing countries. One of the primary reasons for this dynamic is that major energy companies such as ConocoPhillips have direct access to only 7 percent of the world's oil and natural gas resources, down from 85 percent in the 1960s. If U.S. policymakers want to increase supply availability and decrease dependence on foreign sources of energy, they should improve access to resources in the United States.

b) What in your view is the price per barrel that can be justified purely by the supply and demand in the market?

The price for crude oil is determined by the extremely active global oil market, which includes many buyers and sellers and ample liquidity. It is not possible for anyone to know what prices "should be" in an unregulated market or "would be" under a specified set of conditions.

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[6] U.S. Department of Energy, Energy Information Administration, "Performance Profiles of Major Energy Producers 2006," Table B12 ($14.6 billion in 2002 to $90.4 billion in 2006)

[7] The amount of an incremental dollar in revenue that is paid to the government (state and federal) in the form of production taxes, royalties, federal and state income taxes and any other taxes; incremental rate in Alaska is 90% at $115/bbl oil price

c) What steps do you think should be taken to protect consumers from the effects of excessive speculation in the trading markets for oil?

Regulatory bodies need to have both the resources and information to execute their responsibilities. We continue to believe anything done to increase transparency in the markets is positive as long as it maintains liquidity and is justified by a fair and transparent cost/benefit analysis.

4. In your testimony, you claim that consolidation in the oil industry has been necessary to enable your company to compete globally. However, a 2004 GAO study found that consolidation and mergers in the oil refinery industry, "generally led to higher wholesale gasoline prices in the United States." As a result of all the mergers, the largest five oil companies now control 55% of the refining market, and the largest 10 dominate 81%.

a) In your view, how has market concentration in the refinery industry affected the price of gasoline?

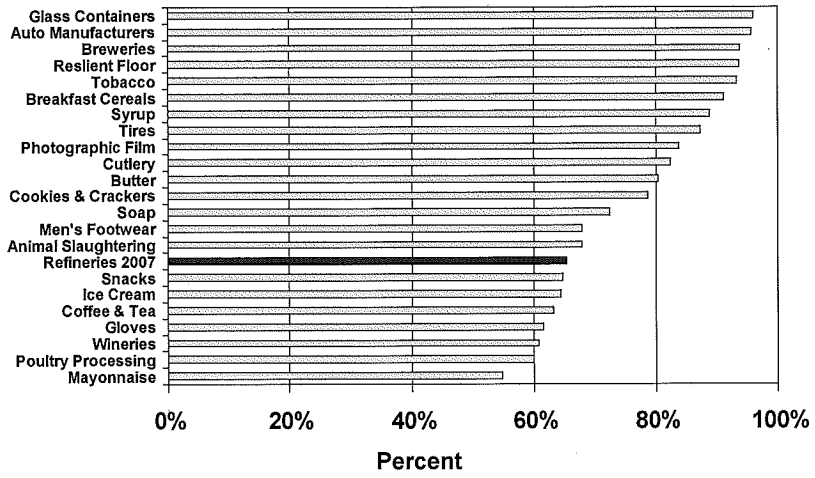
The price of gasoline is primarily a function of the price of crude oil. The cost of crude oil is the largest single component of retail gasoline prices, representing about 70 percent of the pump price in the first quarter of 2008. Historical analysis also shows that changes in crude oil prices explained about 97 percent of the variation in the pre-tax price of gasoline between 1918 and 2006.[8]
Given the relatively low market concentration of refining, we do not believe mergers have negatively affected the price of gasoline. Rather, we believe that the efficiency improvements resulting from the mergers have probably lowered consumer prices relative to what they would have been otherwise.

The Federal Trade Commission (FTC) concluded that "the refining industry remains relatively unconcentrated" and that "no refiner has a substantial share of crude oil distillation refining capacity, either nationally or regionally."[9] In addition, the refining industry is not very concentrated relative to many other industries in the U.S. The chart on the next page shows that the market share of the eight largest firms for refining is much lower than for many other industries in the United States.

[8] Carol Dahl, Colorado School of Mines, "What Goes Down Must Come Up: A Review of the Factors Behind Increasing Gasoline Prices, 1999-2006," April 2007
[9] Federal Trade Commission, "Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases," Spring 2006, page 16

Eight Firm Concentration (2002)

Percent of Market Composed of the Eight Largest Firms



Source: Energy Information Administration for Refineries 2007, U.S. Department of Commerce for all others

The FTC criticized the GAO referenced report for, "(1) methodological mistakes that make the Report's quantitative analysis wholly unreliable, (2) critical factual assumptions that are both unstated and unjustified, and (3) conclusions that lack any quantitative foundation."[10] The GAO study was flawed because it did not control for the numerous other factors besides mergers that caused gasoline prices to increase during the period studied (e.g., supply disruptions, seasonality, boutique fuels, higher cost of manufacturing clean fuels).[11]

[10] Federal Trade Commission letter to GAO, "Energy Markets: Effects of Mergers and Market Concentration in the U.S. Petroleum Industry," May 2004, Appendix IV, page 153

[11] Federal Trade Commission letter to GAO, "Energy Markets: Effects of Mergers and Market Concentration in the U.S. Petroleum Industry," May 2004, Appendix IV, page 153

b) Do you see a link between market concentration and reduced refinery production?

No. In fact, refinery crude runs have increased since the mergers that occurred in the industry in the 1990s and early 2000s. In 1983, crude runs were about 11.7 million barrels per day. In 2007, they exceeded 15 million barrels per day. That 30 percent increase was driven by continuous incremental capacity expansions and improved efficiency. It also occurred despite the number of operable refineries in the United States falling from 319 in 1980 to 149 in 2007. The refineries that closed were primarily small, inefficient refineries that could not survive after the elimination of special federal incentives in 1981 as well as by the large capital expenditures that were required to meet government-mandated product specifications (such as clean fuels) and emissions reductions. The lack of economies of scale significantly disadvantaged the small refiner. The average size of the current U.S. refinery is about 125,000 barrels per day, and some of the new global refineries being built are being sized at about 400,000 barrels per day. When it is completed, there will be a refining complex in India with a capacity of 1.2 million barrels per day.

c) How much would increased refinery production lower gasoline and diesel prices?

We do not have any models capable of quantifying the impact on prices of increased refinery production. It is possible that increases in refinery production, as well as increases in imports, could lower gasoline and diesel prices somewhat. However, the main driver of higher gasoline prices today is higher crude prices, and increasing supplies of gasoline and diesel will not address that issue.

ConocoPhillips is trying to expand our U.S. refineries. In 2008 alone, ConocoPhillips plans to invest $2.8 billion in our global refining, marketing and transportation operations. Of that amount, 74 percent will be invested in the United States and 69 percent will be invested in global refining. Unfortunately, we are running into substantial delays in permitting refinery expansions in the United States, including at our Wood River refinery in Illinois.

5. In the last couple of weeks, we have seen the release of a handful of reports that claim that our use of ethanol has displaced a certain amount of gasoline from the nation's pool of transportation fuels, and that the displacement of more expensive gasoline with less expensive ethanol has resulted in lower consumer prices at the gas pump. These experts say that the savings have been between 15-20%, which would translate into about $400-$600 of savings per family or about $50 billion to $75 billion saved nationwide.

a) What is the effect on retail gasoline prices of cheaper ethanol being blended into gasoline?

At current crude price and ethanol levels, ethanol is extending the gasoline pool without imposing an economic penalty (excluding any food inflationary impacts), thereby reducing the overall fuel price. The specific effect is dependent on the relative prices of crude oil, and thus gasoline prices, delivery costs, and ethanol. However, according to Credit Suisse, from 2003 to 2007, ethanol sold for an average of 43 cents per gallon more than wholesale gasoline.[12] Absent government subsidies, gasoline blended with ethanol would be more costly in this situation. Also, while the prices per gallon are one measure of value, consider also that ethanol contains about two-thirds the energy of hydrocarbon gasoline and thus, additional volume is needed to travel equivalent distances when using ethanol blends.

There are also other costs associated with corn-based ethanol use outside of fuel prices. Ethanol production requires a substantial government subsidy and additional delivery infrastructure, with potential inflationary impacts on food prices and other indirect environmental consequences (e.g., soil erosion, water usage). In addition, corn-based ethanol production does not offer much of an improvement in carbon footprint versus conventional gasoline. We believe that our country needs to develop second generation biofuels that have improved potential in these sensitive areas. While ConocoPhillips is supporting research on these new fuels, they are not commercially available today. We also believe that our nation should eliminate the current 54-cent-per-gallon tariff on imported ethanol. If the nation is concerned about reducing fuel costs and carbon emissions, policies and taxes that discourage lower-cost and less carbon-intensive imports, such as sugar-based ethanol from Brazil, are counter-productive.

b) If the renewable fuels mandate were waived this year and nine billion gallons of ethanol were removed from the market, additional petroleum would need to be "found" to replace this fuel. Some economists say that prices would increase by as much as 50 cents to 80 cents per gallon based on standard calculations. Based on your historical observations, would you expect to see that large of an increase?

We do not have predictive models for such cases. In our experience, the results are too dependent on factors external to domestic supply and demand to allow for accurate predictions (global crude and clean product balance, global refinery utilization, imports, etc.).

[12] Credit Suisse, "Corn = Energy Whether We Like It or Not," May 14, 2008, page 16

If waiving the renewable fuel standard reduced the available gasoline pool, taking into account the lower energy content of ethanol, the effect would likely be an increase in price. However, some light end hydrocarbon products that were excluded to meet vapor pressure specifications when ethanol was blended (ethanol has a relatively high vapor pressure) could be restored to the gasoline pool in some areas of the country. This would diminish any price increase.

Another complication in answering this question is that waiving the renewable fuel standard would likely not materially affect the amount of ethanol being blended today unless there were to be a ban on its use. With the high crude prices and ethanol subsidies, there is currently an economic incentive to produce and blend ethanol where infrastructure can be brought on-line to support ethanol use.

c) One of the challenges to making production and the mandate sync up is associated with the infrastructure needed to develop the biofuels industry. What is your position regarding higher blend levels of ethanol and the deployment of pumps capable of dispensing E-85?

We agree that infrastructure – including biomass gathering and transportation to conversion, biofuel distribution, blending, retailing and the vehicle fleet – will be the most important factor in the long-term market success for biofuels. ConocoPhillips is allowing E-85 fuel to be marketed under our branded canopy provided the marketer meets certain image, safety and fuel-quality guidelines. The feedback we have received from our branded gas stations who have installed E-85 dispensers is that there is insufficient demand to justify the expense of the conversion. The problem is that only about 3 percent of the U.S. passenger fleet possesses flexible fuel capability today and consumers who own these vehicles are often unaware of it. In addition, consumers are concerned about the roughly 25-percent reduction in gas mileage experienced when using E-85 fuel versus conventional gasoline.

In order to meet the targets established in the Energy Independence and Security Act's renewable fuels standard, blends higher than E-10 will be required. The U.S. Department of Energy and the Environmental Protection Agency, along with industry support, are currently evaluating the ability of the existing infrastructure to utilize blends as high as E-20. The domestic automakers' expansion of flex fuel vehicles that allow blends of greater than 10 percent can enable greater biofuel use. However, today's vehicle fleet has not been designed or validated to satisfactorily use ethanol blends above E-10. Such blends are currently illegal to use in conventional vehicles (97 percent of the fleet) and not approved by vehicle manufacturers (will void fuel-related warranties) or the federal government based on unknown consequences to existing vehicle operations and emission impacts.

Another concern is the lack of pumps with UL-certified dispenser equipment and lack of updated E-85 fuel standards that include fuel detergency needed to avoid the formation of damaging deposits in vehicles fueled with E-85. Other specification aspects of E-85 fuel need to be addressed.

A final concern is the lack of data on the emissions impact of vehicles transitioning from low-ethanol blend to high-ethanol blend fuels. Increases in emissions will complicate various states' efforts to address ozone non-attainment designations.

Ethanol already requires a separate bulk transportation system. E-85 fuel would require an additional infrastructure investment at the retail site level, 97 percent of which are not owned by major oil companies. This investment is expensive for the retailer and would be rendered unnecessary if a single higher blend target were established.

For these reasons we believe that policy should be directed toward identifying a higher national blend allowance (such as E-15 or E-20) that can reasonably fit within the existing infrastructure limitations rather than expecting E-85 fuel to "sync up" to the market.

Questions for John E. Lowe

1. What carbon offset options has ConocoPhillips considered for the Wood River refinery expansion?

The Wood River refinery expansion project is expanding clean fuels production and will incorporate many energy-saving improvements including premium high-efficiency motors, low-loss electrical transformers, variable-speed motors, furnace flue gas heat recovery (to generate steam), and product heat recovery. The project will improve the energy efficiency of the Wood River refinery as measured by an industry recognized measurement called Energy Efficiency Index.

In addition to the energy efficiency improvements, the refinery will install state-of- the-art air pollution-control technology, which will reduce air emissions of sulfur dioxide by 95 percent and nitrogen oxides by 25 percent.

ConocoPhillips assesses the carbon impacts for all of our major projects, including the cost of minimizing the carbon footprint and the potential costs of carbon offsets. In many cases, large investments may be required to reduce emissions. Therefore, we strongly support a clear government policy that mandates a reduction in carbon dioxide emissions and sets a price for avoiding carbon. We joined the United States Climate Action Partnership to support that end. Without a national economy-wide emissions reduction program with international linkages, major expenditures to reduce our CO_2 emissions will make our company and products uncompetitive in the marketplace.

At the hearing, you expressed concern about the use of Canadian oil sands by U.S. refineries. We would like to point out that 70-80 percent of the carbon dioxide emissions from all sources of crude oil, including oil sands, on a well-to-wheels basis, are from consumers burning the fuels in their vehicles, and not from producing or refining the product. Oil sands production in Canada today is responsible for only 0.1 percent of global greenhouse gas emissions. The Alberta and Canadian federal governments are also taking actions to reduce the carbon footprint of oil sands development. Alberta provincial greenhouse gas regulations came into effect in 2007. They require a 12 percent reduction in greenhouse gas intensity below the 2003-2005 average starting in 2007. In 2007, the federal government of Canada established a national target of an absolute 20 percent reduction in greenhouse gases from 2006 levels by the year 2020. For new in situ oil sands projects that start producing in 2012 or thereafter, the federal regulations require those projects to engage in carbon capture and storage or generate an equivalent emissions reduction.

Oil sands can also be developed in an environmentally sensitive manner. ConocoPhillips's oil sands portfolio is primarily steam-assisted gravity drainage (SAGD), which is an in-situ extraction method occurring within the reservoir deep underground and requires only a limited surface footprint for the plant site and well pads. It does not have tailings, diversion of rivers, or withdrawals from or discharges to rivers or lakes. In our Surmont project, we are currently recycling 90 percent of the water used in the process, and we are reducing the water intensity and using non-potable water. We were also an early adopter of low-impact seismic practices that substantially reduce the amount of forest cleared and accelerate reforestation. Environmental mapping is done to place facilities away from any sensitive eco-sites, and we have ongoing research to improve construction and reclamation practices.

ConocoPhillips is also spending significantly to improve heavy oil production technologies and practices and reduce the resulting environmental and carbon footprint. ConocoPhillips Canada is a member of the Integrated CO_2 Network (ICO_2N), an industry and government consortium researching development of pipeline infrastructure to transport carbon dioxide from oil sands development sites to locations where it can be used in enhanced oil recovery, or potentially sequestered. ConocoPhillips Canada is also a participant in the Alberta Saline Aquifer Project, an industry collaborative formed to develop a large-scale carbon capture and storage project. We have also invested in research and development projects that study alternate recovery technologies, which reduce both our energy requirements and carbon footprint. ConocoPhillips and its partners plan to fund about $500 million of heavy oil technology and studies over the next five years, including technology to reduce greenhouse gas emissions, water use and land disturbance.

The Canadian oil sands are projected to become an increasingly important source of oil for the United States, particularly considering recent declines in heavy oil production in Mexico, Venezuela and California. U.S. refineries are configured to process heavier, high sulfur crude oils, and with the decline of these types of crude oils, the Canadian heavy crude oils are a very good fit to keep the U.S. crude supply secure and stable. The Canadian oil sands are projected to approach 20 percent of U.S. oil supplies by 2020.

There is a global competition for resources today and the U.S. should be careful not to take actions to discourage the flow of oil produced from oil sands to this country. American consumers benefit from having this secure supply source and ConocoPhillips is committed to producing and refining it in an environmentally responsible manner.

Questions of Senator Sheldon Whitehouse
Following the Senate Judiciary Committee Hearing
on
"Exploring the Skyrocketing Price of Oil"

Questions for Entire Panel:

1. Has your company, any subsidiary, or any entity acting under common ownership or control, financially contributed to any organizations that study global warming or climate change? If so, which are those organizations and how much in total has your company given to each one?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the American Legislative Exchange Council? If so, how much has it contributed? Does your company agree with the American Legislative Exchange Council's opinion that increasing levels of carbon dioxide are not causing glaciers to retreat?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Cato Institute? If so, how much has it contributed? Either way, does your company agree with Cato Institute commentary that "science no longer provides justification for any rush to pass drastic global warming legislation."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Committee for a Constructive Tomorrow? If so, how much has it contributed? Does your company agree with the Committee for a Constructive Tomorrow that "recent glacial retreats, sea-level rise and migrations of temperature sensitive species are all within the bounds of known natural variability."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Annapolis Center for Science-Based Public Policy? If so, how much has it contributed? Does your company agree with an Annapolis Center for Science-Based Public Policy report that states "climate models may never be able to make greenhouse-warming predictions with certainty?"

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Acton Institute for the Study of Religion and Liberty? If so, how much has it contributed? Does your company agree with Acton Institute for the Study of Religion and Liberty commentary that it is a "myth that [global warming] is an emergency that demands a drastic cutback in CO-2 emissions" and that "making a case against CO-2 without making a case against nature is like making an omelet without breaking the proverbial egg. It is impossible."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Center for the Study of Carbon Dioxide and Global Change? If so, how much has it contributed? Does your company agree with the Center for the Study of Carbon Dioxide and Global Change that "there is no compelling reason to believe that the rise in temperature was caused by the rise in CO2."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Frontiers of Freedom Institute? If so, how much has it contributed? Does your company agree with the Frontiers of Freedom Institute that S.2191, America's Climate Security Act, is "a hyped-up rallying cry against a 'problem' that scientists can't even agree exists in the first place."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the George C. Marshall Institute? If so, how much has it contributed? Does your company agree with the George C. Marshall Institute that there is a "shattered consensus" on the state of global warming?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Heartland Institute? If so, how much has it contributed? Does your company agree with the Heartland Institute that "there is no consensus about the causes, effects, or future rate of global warming," and that "most climate scientists doubt the reliability of computer models and the accuracy of land-based temperature records," and that "reports by the IPCC are unreliable due to political editing and rewriting of the reports' conclusions," and that "some of the key evidence cited in past IPCC reports has been shown to be fraudulent."?

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Institute for Energy Research? If so, how much has it contributed? Does your company agree with the Institute for Energy Research that global climate change is a "craze...fueled by alarmist rhetoric and trumped up scientific claims."?

ConocoPhillips is not aware of any direct contribution to the climate-change related activities of any of the organizations that you listed. We have contributed $48,500 between 2003 and 2008 to the American Legislative Exchange Council to support nonpartisan research and policy development for a variety of issues, as well as drafting and advocating model legislation.

ConocoPhillips has acknowledged the scientific consensus that human activity, including the burning of fossil fuels, is contributing to increased concentrations of greenhouse gases in the atmosphere that can lead to adverse changes in global climate. We have not taken a position on the accuracy of external perspectives on the science of climate change that you list. ConocoPhillips is committed to taking action to reduce greenhouse gas emissions. We support a mandatory national framework in the U.S. for reducing carbon dioxide emissions that is linked internationally, establishes a value for carbon, is transparent, fair, encourages technology deployment and energy efficiency and avoids undue harm to the economy.

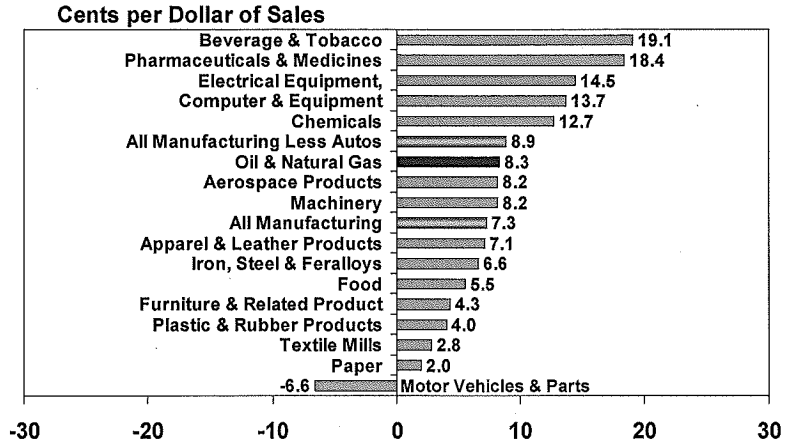
2. At a time when gasoline prices were near record highs, your five companies earned record-breaking profits last year: $116 billion. ExxonMobil made $40.6 billion last year, which is more than the all federal highway spending and about as much as the entire credit card industry earned that year. Since 2002, your five companies have consistently broken profit records. If you continue to profit this year at the pace you did in the first quarter, you are once again poised to smash profit records, not just for your industry, but for all industries. Please explain why what, in raw numbers, may be the most profitable industry in history needs the multi-billion dollar Section 199 domestic manufacturing tax breaks enacted in 2004. Why aren't those profits adequate to provide access to capital without those tax incentives?

We disagree with the characterization of the profitability of the oil and natural gas industry. The size of oil and gas industry earnings reflects the size and scale of our companies required to replenish and expand the world's oil and natural gas supplies. This size is required to undertake large, capital-intensive projects which take years to develop, and to effectively compete with government-supported national oil companies. A single large offshore platform in the Gulf of Mexico designed to operate in thousands of feet of water costs more than $1 billion to develop. Our earnings need to be large in absolute terms to support the scale of investment required. We report profits before reinvestment. Then we invest to explore and replace the energy we produce so we can be long-term sustainable suppliers of energy to the world. Most of our earnings are reinvested in the business to replace reserves and grow production. In fact, ConocoPhillips earned nearly $12 billion in 2007, but spent close to $13 billion in capital expenditures and investments.

Many times people confuse the absolute size of earnings with financial performance. Profit margins, or earnings per dollar of sales (measured as net income divided by revenues), provide one useful way to compare financial performance among industries of all sizes. The latest published data for 2007 (see figure on the next page) show the oil and natural gas industry earned 8.3 cents for every dollar of sales compared to 7.3 cents for all U.S. manufacturing and 8.9 cents for U.S. manufacturing, excluding the financially-challenged automotive industry.

2007 Earnings by Industry

Net Income / Sales



Source: Based on company filings with the federal government as reported by U.S. Census Bureau and Oil Daily

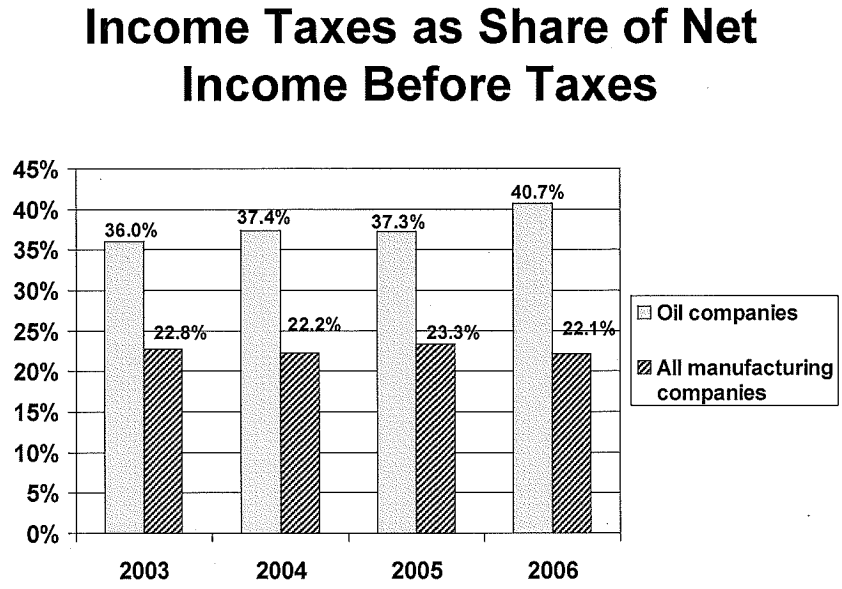
As outlined in my written testimony, the return on investment for the oil and natural gas industry, while currently comparable to average returns for the S&P industrials, lagged those returns for many years. Since 1977, the refining segment in particular has suffered from weaker returns on investment than S&P 500 industrial companies for nearly all years and actually had negative returns in several years, most recently in 2002.

The House proposal to repeal the Section 199 domestic manufacturing deduction for the five largest oil companies would discriminatorily deny the benefit of a tax deduction that is available to every other industry and other large oil companies. In our case, this provision of the tax code encourages more domestic U.S. oil and natural gas production, which increases our energy security and helps preserve U.S. jobs.

The cost for exploration and production of oil and natural gas in the U.S. is among the highest in the world due to the maturity of U.S. basins and the need to move into deep water in the Gulf of Mexico. The Section 199 tax deduction will help domestic oil and gas production compete with lower-cost international opportunities. Repealing the deduction will increase our dependence on foreign imports.

Major oil companies are already heavily taxed. In a recent survey of 80 diverse American companies, ConocoPhillips' effective tax rate between 2004 and 2006 of 43.6 percent was the highest, about 14 percent higher than the average. We also pay royalties, production and excise taxes, and lease bonuses, the latter of which are paid whether a company discovers hydrocarbons or not. When you take all these other forms of government payment into account, our incremental fiscal-take rate[13] in Alaska is about 90 percent at recent oil prices.

The chart below, based on U.S. Department of Energy data, indicates that the oil and gas industry's 2006 income tax expenses (as a share of net income before income taxes) averaged 40.7 percent, compared to 22.1 percent for U.S. manufacturing companies. It also shows that income tax payments as a percentage of net income have been rising in recent years for the oil industry, while they have been relatively static for all manufacturing companies.



Source: U.S. Department of Energy, EIA, Performance Profiles of Major Energy Producers; U.S. Census Bureau, Quarterly Financial Reports

[13] The amount of an incremental dollar in revenue that is paid to the government (state and federal) in the form of production taxes, royalties, federal and state income taxes and any other taxes; incremental rate in Alaska is 90% at $115/bbl oil price

3. The petroleum industry operates in an unusual fashion. Your five corporations are integrated oil giants that control all stages of production and distribution. From the exploration and mining to the refinement and transportation to the moment the customer swipes her Exxon or Shell charge card at the pump, you control everything. Are you aware of any other industries that operate in this fashion? How would you respond to the suggestion that it may be time to examine whether the vertically integrated ownership structure facilitates price gouging and harms consumers? Would you support a Congressionally-directed study to examine the effects of your ownership structure?

We question the need to again study the effects of our industry's ownership structure. Since 1973, the FTC has conducted over 100 investigations examining every facet of the oil industry. Indeed, the petroleum industry receives closer scrutiny from antitrust authorities than other industries. An FTC review of merger investigations and enforcement actions from 1996 to 2005 concluded that the Commission brought more merger cases with lower levels of market concentration in the petroleum industry than any other industry.[14] During the period of oil industry mergers in the late 1990s, the FTC's Bureau of Competition spent almost one-fourth of its enforcement budget on investigations in the energy industry.[15]

FTC investigations have continued to be a staple of our industry in recent years, including an investigation specifically addressing mergers and other structural changes in the industry[16] and several other exhaustive non-merger investigations. Among other things, the FTC's 2004 investigation into industry structure found that, "[d]espite increases in concentration at some production levels over [the last two decades], particularly since the mid-1990s, most sectors of the petroleum industry at the national, regional, or state level generally remain unconcentrated or moderately concentrated."[17] In 2006, the FTC again noted that "industry developments have lessened the incentive to vertically integrate throughout all or most levels of production, distribution and marketing. Several significant refiners have no crude oil production, and integrated petroleum companies today tend to depend less on their own crude oil production. In addition, a number of independent retailers purchase refined products on the open market."[18] The FTC also specifically examined the merger of Conoco Inc. and Phillips Petroleum Company in 2002.

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[14] Michael A. Salinger, "Petroleum Industry Consolidation: Prepared Statement of the Federal Trade Commission Before the Joint Economic Committee of the U.S. Congress," May 23, 2007, page 3

[15] Ibid., page 8

[16] Bureau of Economics, Federal Trade Comm'n, *The Petroleum Industry: Mergers, Structural Change, and Antitrust Enforcement* (August 2004) 129-31 (hereinafter *Oil Merger Report*).

[17] *Id.* at 15.

[18] William E. Kovacic, Commissioner, Federal Trade Commission, "Prepared Statement of the Federal Trade Commission on Petroleum Industry Consolidation Before the Committee on the Judiciary, U.S. Senate," February 1, 2006, pages 5-6

Despite the mergers that have taken place, ownership of refining capacity has shifted slightly away from the U.S. integrated majors to independents. In 2007, independents had a 56 percent market share in refining, up from 53 percent in 1995. There have been many new entrants into the retail business. Over the past decade, giant grocery stores chains and hypermarkets have increased their share from 1 percent to 13 percent. Independents have also grown their brand share from 32 percent to 38 percent over the last decade. Major oil companies have a much smaller participation in the ownership and operation of retail stores. According to the Association for Convenience and Petroleum Retailing, the major integrated oil companies own and operate fewer than 3 percent of all retail locations in the United States.[19] In fact, ConocoPhillips only owns 324 retail stores in the United States today.

Thus, we disagree with your contention that ConocoPhillips or other companies in the industry control all stages of production and distribution. Rather, the industry is highly competitive and, as further outlined in my written testimony, one that is less concentrated than many other industries in the United States.

Moreover, in all of its investigations of the industry, to our knowledge, the FTC has never found evidence of collusion or market manipulation. The FTC has also conducted several investigations of pricing anomalies but has not found that illegal conduct caused any of them.[20]

4. The attached graph illustrates that the growth in profits of your five companies over the past six years has outpaced even the sharp increase in the price of gasoline. Why is your profit margin rising at a rate that is so much higher than the price of your product?

For profit margin to rise at a consistent rate with the selling price of a product, the cost of producing the product must also rise at a consistent rate with the selling price. The graph accompanying Senator Whitehouse's questions demonstrates that, in fact, energy companies' production costs have increased at a lesser rate than sales revenues from crude oil production. Crude prices have risen at a faster rate than our costs. In this environment, the percentage increase of profit margin will outpace the percentage increase in product selling prices.

An example to illustrate this concept:

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[19] Testimony of Bill Douglass on Behalf of the National Association of Convenience Stores Before the House Judiciary Committee, Anti-Trust Task Force, Hearing to Examine the Consumer Effects of Rising Gas Prices, May 7, 2008, page 2

[20] Timothy Muris (former Chairman of the FTC) and Richard Parker (former Director of the FTC's Bureau of Competition), "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, pages i-ii

In year one, a company sells 100 units at a selling price of $10 per unit. The production cost associated with producing the product is $8 per unit, for a year one gross profit of $20 (calculated as $100 in revenue (100 x $10) minus $80 in costs (100 x $8)). In year two, market forces outside the control of the company drive the selling price of the product to $15 per unit. However, this increase did not immediately impact the production cost of the product, which only increased to $9 per unit. Thus year two gross profit is $60 (calculated as $150 in revenue (100 x $15) minus $90 in costs (100 x $9)). When compared on a percentage basis, the product selling price increased 50 percent (from $10 to $15), while gross profit increased 200 percent (from $20 to $60).

There tends to be a several-year lag between changes in oil prices and changes in industry costs. Costs eventually follow oil prices up because in a higher price environment, companies invest more and bid up the cost of drilling rigs and oil services. An upstream capital cost index published by Cambridge Energy Research Associates indicates that industry capital costs have approximately doubled since 2000, reflecting higher costs for materials, equipment and personnel.

In addition, returns in the oil industry, like other capital-intensive industries, are highly cyclical. Margins are low for a period of years until demand growth tightens the supply and demand balance. Then new capacity additions are required to satisfy strong demand growth. The rising price is an important economic signal to suppliers to expand production to satisfy rising demand.

5. a) How much has your company invested in research and development of coal to liquids technology for use as transportation fuel in each of the past five years?

Over the last five years, ConocoPhillips invested $175 million in the research and development of coal-to-liquids technology and the company has expended over $750 million over the last fifteen years.

Coal-to-Liquids	2003	2004	2005	2006	2007	**Total**
$ Millions	29	58	39	25	24	**175**

b) How much has your company invested in research and development of hydrogen technology for use as transportation fuel in each of the past five years?

Over the last five years, ConocoPhillips has invested $15 million on hydrogen technology research and development. These expenditures do not include funds related to the production of hydrogen at our refineries.

Hydrogen	2003	2004	2005	2006	2007	**Total**
$ Millions	3	4	3	3	2	**15**

c) How much has your company invested in research and development of non-fossil fuel renewable energy sources for use as transportation fuel, excluding hydrogen technology, in each of the last five years?

Over the last five years, ConocoPhillips has invested $20 million in research and development of non-fossil fuel renewable energy sources.

Non-Fossil Fuels	2003	2004	2005	2006	2007	**Total**
$ Millions	1	1	1	5	12	**20**

6. How much has your company invested in research and development of wind, solar, and geothermal energy in each of the last five years?

Over the last five years, ConocoPhillips has invested $5 million in research and development of wind, solar and geothermal energy. Our company has approached these investments cautiously given our past experience of purchasing a position in a large solar energy company (Acurex Solar Corporation) in the 1980s just after fuel prices spiked and then having the business operating at a significant loss until we sold it several years later.

Wind/solar/geothermal	2003	2004	2005	2006	2007	**Total**
$ Millions	3	0.5	0.5	0.5	0.5	**5**

7. Compare the answer to each of the three above questions with the aggregate compensation of your top 10 executives and, separately, your budget for travel, entertainment, and other fringe benefits.

We report the compensation of our CEO, CFO and three other most highly compensated officers in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") each year in our publicly available filings with the SEC. In response to your request, we have included, as Exhibit A, information which reflects the compensation reported for these executives for each of the past five years in the Summary Compensation Table of our proxy statements relating to our annual meeting of stockholders. In our publicly available filings, our Summary Compensation Tables include important information in the accompanying narrative and footnotes to the Summary Compensation Table and, therefore, we would direct your attention to this information in our proxy statements. To assist your review of this information, please note the following related to changes in SEC rules applicable since 2003.

- For 2003, beneath the compensation amounts reproduced, we report the number of options awarded to each executive, as the SEC rules did not, at that time, call for the dollar value of an executive's option awards to be included in the summary compensation table for those periods.

- For all years, compensation amounts voluntarily deferred or contributed by the Company to a deferred compensation plan by the specified executives are included in the Summary Compensation Table; however, in accordance with SEC rules, earnings on these deferred amounts are only included for years subsequent to 2005.

- For years after 2005, the amounts considered by our Compensation Committee for annual or program-specific awards both in setting targets and making awards are not necessarily reflected in the amounts shown on the "Stock Awards" and "Option Awards" rows of the Summary Compensation Tables reproduced in Exhibit A. This difference occurs primarily because the numbers in the "Stock Awards" and "Option Awards" rows do not reflect solely the values of awards made for a particular year while the amounts considered by our Compensation Committee reflect solely the values of awards made for a particular year or program. These numbers in these rows include the Financial Accounting Standards Board Statement No. 123(R), "Share-Based Payment" (FAS 123(R)) expense recognized by us in the year for all outstanding stock and option awards, which, because of the current "hold-until-retirement" feature of our restricted stock/restricted stock unit programs, can be a substantial amount. Because we currently require our executives to hold restricted stock and restricted stock unit awards for an extended holding period (until retirement for program periods commencing prior to 2009 or, for program periods ending after 2010, the earlier of retirement and at least five years following completion of the program period), any appreciation in our stock price during a given year results in our recognizing the value of such appreciation with respect to certain previously-earned awards in its financial statements, and therefore, in the compensation amounts reported above. Therefore, for your convenience, we have also included, as Exhibit B, supplemental tables reproduced from our proxy statement in each of the last two years reconciling the targeted and awarded amounts considered by our Compensation Committee under each of our compensation programs for each of the executives with the amount that is required to be reported for these periods under the SEC rules for the Summary Compensation Tables, as reproduced in Exhibit A.

With respect to benefits afforded these individuals, our senior executives participate in the same basic benefits package as our other U.S. salaried employees. This includes a basic benefits package consisting of retirement, medical, dental, vision, life insurance and accident insurance plans, as well as flexible spending arrangements for health care and dependent care expenses. Perquisites provided to these individuals, that are not broadly available to U.S. salaried employees, make up a portion of "All Other Compensation" in Exhibit A.

Our travel and entertainment expenses for 2007 were approximately $211 million. The majority of these expenses consist of the cost of airfare, hotels and meals while on business travel. ConocoPhillips does not compile "fringe benefits" or utilize that term in the ordinary course of its business.

The proportion of capital devoted to alternative energy investments seems small only because of the vast scale of our existing oil and natural gas businesses. As we move beyond research and development on these projects, we anticipate that our capital investments will increase significantly. This spending is not directly comparable to compensation, travel and entertainment because the latter are business expenses for our entire company that are not related to how much we spend on any given activity. The travel and entertainment expenses cover all of our approximately 32,800 employees in our company.

Summary Compensation Table Disclosure

Exhibit A

2003 (2004 Proxy)	J.J.Mulva President and CEO	A.W. Dunham Chairman	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production	J.A. Carrig EVP, Finance and CFO
Salary	$ 1,479,167	$ 1,479,168	$ 775,000	$ 540,000	$ 575,833
Bonus	$ 3,500,000	$ 10,340,690	$ 1,289,321	$ 1,051,383	$ 982,153
Long-Term Incentive Payout	$ 1,632,363	$ 1,632,363	$ 523,648	$ 387,355	$ 299,621
Other Annual Compensation	$ 161,504	$ 203,620	$ 13,128	$ 2,548	$ 987
All Other Compensation	$ 126,749	$ 126,749	$ 65,090	$ 230,440	$ 47,554
Total	$ 6,899,783	$ 13,782,590	$ 2,666,187	$ 2,211,726	$ 1,906,148
Options granted[1]	606,000	606,000	251,600	151,800	122,200

2004 (2005 Proxy)	J.J.Mulva Chairman, CEO & President	A.W. Dunham Chairman (to September 30, 2004)	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production	J.A. Carrig EVP, Finance and CFO
Salary	$ 1,500,000	$ 1,521,782	$ 812,500	$ 630,000	$ 606,000
Bonus	$ 4,100,000	$ 3,064,210	$ 1,576,775	$ 1,366,420	$ 1,123,983
Long-Term Incentive Payout	$ -	$ 7,026,746	$ -	$ -	$ -
Other Annual Compensation	$ 133,753	$ 553,929	$ 13,980	$ 96,855	$ 3,232
All Other Compensation	$ 128,641	$ 100,735	$ 69,678	$ 220,808	$ 51,952
Total	$ 5,862,394	$ 12,267,402	$ 2,472,933	$ 2,314,083	$ 1,785,167
Options granted[1]	745,200	745,200	214,140	193,600	126,200
Grant date value of options granted	$ 6,811,128	$ 6,811,128	$ 1,834,503	$ 1,769,504	$ 1,153,468

2005 (2006 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.E. Lowe EVP, Strategy Planning and Corporate Affairs	J.W. Nokes EVP, Refining, Marketing, Supply and Transportation	W.B. Berry EVP, Exploration and Production
Salary	$ 1,500,000	$ 651,000	$ 538,333	$ 846,500	$ 709,167
Bonus	$ 6,800,274	$ 2,176,761	$ 1,925,174	$ 1,500,980	$ 1,136,397
Long-Term Incentive Payout	$ 22,533,686	$ 3,596,486	$ 3,079,343	$ 6,285,580	$ 3,952,472
Other Annual Compensation	$ 112,355	$ 3,099	$ 1,121	$ 11,417	$ 7,737
All Other Compensation	$ 155,305	$ 67,433	$ 55,766	$ 87,664	$ 73,483
Total	$ 31,101,620	$ 6,494,779	$ 5,599,737	$ 8,732,141	$ 5,879,256
Options granted	392,800	104,600	70,200	144,600	144,600
Grant date value of options granted	$ 4,898,216	$ 1,304,362	$ 875,394	$ 1,803,162	$ 1,803,162

2006 (2007 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.L. Gallogly EVP, Refining, Marketing and Transportation	R.L. Limbacher EVP, Exploration and Production	W.B. Berry EVP, Exploration and Production
Salary	$ 1,500,000	$ 695,000	$ 612,747	$ 613,668	$ 817,000
Non-Equity Incentive Plan Compensation	$ 3,383,775	$ 1,017,967	$ 882,037	$ -	$ 804,377
Option Awards	$ 6,340,259	$ 1,698,868	$ 532,879	$ 342,673	$ 1,388,747
Stock Awards	$ 26,396,778	$ 6,238,265	$ 1,867,784	$ 2,580,936	$ 379,629
Change in Pension Value and Nonqualified Deferred Compensation Earnings	$ 5,449,910	$ 1,931,140	$ 103,786	$ 894,505	$ 2,289,243
All Other Compensation	$ 373,302	$ 101,195	$ 170,455	$ 131,079	$ 111,645
Total	$ 43,444,024	$ 11,682,435	$ 4,169,688	$ 4,562,861	$ 5,790,641

2007 (2008 Proxy)	J.J.Mulva Chairman, CEO & President	J.A. Carrig EVP, Finance and CFO	J.L. Gallogly EVP, Refining, Marketing and Transportation	J.E. Lowe EVP, Exploration and Production	S.L. Cornelius SVP, Strategy Planning and Corporate Affairs
Salary	$ 1,500,000	$ 817,500	$ 858,666	$ 660,400	$ 515,000
Non-Equity Incentive Plan Compensation	$ 3,442,500	$ 1,186,291	$ 1,237,698	$ 888,638	$ 596,607
Option Awards	$ 5,542,175	$ 1,632,457	$ 2,301,421	$ 670,000	$ 466,048
Stock Awards	$ 37,949,152	$ 11,224,184	$ 3,261,590	$ 2,634,613	$ 1,584,780
Change in Pension Value and Nonqualified Deferred Compensation Earnings	$ 1,727,552	$ 1,424,708	$ 1,046,381	$ 705,492	$ 1,088,376
All Other Compensation	$ 387,647	$ 131,239	$ 135,002	$ 119,749	$ 84,684
Total	$ 50,549,026	$ 16,416,379	$ 8,840,758	$ 5,678,892	$ 4,335,495

(1) On June 1, 2005, our common stock split on a 2-for-1 basis by means of a 100% stock dividend payable to stockholders of record as of May 16, 2005. As a result, the number of shares that may be acquired upon exercise of the stock options reported herein reflects the stock split.

Supplement to Summary Compensation Table

Exhibit B

2006

	J.J. Mulva		J.A. Carrig		J.L Gallogly		R.L. Limbacher		W.B. Berry	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Salary	$ 1,500,000	$ 1,500,000	$ 695,000	$ 695,000	$ 612,750	$ 612,747	$ 612,750	$ 613,668	$ 817,000	$ 817,0
VCIP - Feb 2007	2,025,000	3,383,775	674,150	1,017,967	594,367	882,037	-	-	792,490	804,3
Stock Options - 2006	4,330,368	4,330,368	1,264,635	1,264,635	1,137,600	1,137,600	-	-	1,486,953	1,486,9
Stock Award	-	-	-	-	-	-	4,228,105	4,228,105	-	-
PSP II - Feb 2007	3,520,000	17,367,967	766,920	4,243,300	-	-	-	-	1,045,800	3,508,8
Total Compensation Awarded in 2006	$ 11,375,368	26,582,110	$ 3,400,705	7,220,902	$ 2,344,717	2,632,384	$ 4,840,855	4,841,773	$ 4,142,243	6,617,1
Items attributable to FAS 123(R):										
-Mark to market and reconciliations on prior awards	N/A	12,813,060	N/A	2,313,962	N/A	-	N/A	202,627	N/A	(1,017,5
-Accruals on future stock awards	N/A	5,484,114	N/A	1,698,270	N/A	1,867,784	N/A	-	N/A	1,683,9
-Amounts recognized in other periods on PSP II or restricted stock awards	N/A	(9,268,363)	N/A	(2,017,267)	N/A	-	N/A	(1,849,796)	N/A	(3,795,5
-Expense for prior year option awards	N/A	2,009,891	N/A	468,721	N/A	-	N/A	342,673	N/A	665,5
-Amount to be recognized in future years on stock option awards	N/A	-	N/A	(34,488)	N/A	(604,721)	N/A	-	N/A	(763,7
Other items:										
Change in pension value	N/A	5,449,910	N/A	1,931,140	N/A	103,786	N/A	894,505	N/A	2,289,2
All other compensation	N/A	373,302	N/A	101,195	N/A	170,455	N/A	131,079	N/A	111,6
Amount per Summary Compensation Table	N/A	$ 43,444,024	N/A	$ 11,682,435	N/A	$ 4,169,688	N/A	$ 4,562,861	N/A	$ 5,790,6

2007

	J.J. Mulva		J.A. Carrig		J.L Gallogly		J.E. Lowe		S.L. Cornelius	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Salary	$ 1,500,000	$ 1,500,000	$ 817,500	$ 817,500	$ 858,666	$ 858,666	$ 660,400	$ 660,400	$ 515,000	$ 515,000
VCIP - Feb 2008	2,025,000	3,442,500	792,975	1,186,291	832,906	1,237,698	605,365	888,638	417,150	596,607
Stock Options - 2007	4,937,500	4,938,290	1,442,125	1,443,088	1,695,275	1,696,700	975,150	975,156	638,400	639,388
PSP III - Feb 2008	4,620,000	18,161,826	1,317,803	5,180,498	989,000	3,887,556	907,168	3,566,226	592,933	2,330,994
Total Compensation Awarded in 2007	13,082,500	28,042,616	4,370,403	8,627,377	4,375,847	7,680,620	3,148,083	6,090,420	2,163,483	4,081,989
Items attributable to FAS 123(R):										
-Mark to market, amortization and true-ups on prior awards	N/A	25,498,172	N/A	5,344,202	N/A	-	N/A	2,634,613	N/A	1,233,949
-Accruals on future awards	N/A	5,314,976	N/A	1,552,377	N/A	1,734,122	N/A	-	N/A	350,831
-Amount to be recognized in other periods on PSP III	N/A	(11,025,822)	N/A	(852,893)	N/A	(2,360,088)	N/A	(3,566,226)	N/A	(2,330,994)
-Amortization of prior year option awards	N/A	603,885	N/A	189,369	N/A	604,721	N/A	378,353	N/A	243,986
-Amount to be recognized in future years on stock option award	N/A	-	N/A	-	N/A	-	N/A	(683,509)	N/A	(417,326)
Other items:										
Change in pension value	N/A	1,727,552	N/A	1,424,708	N/A	1,046,381	N/A	705,492	N/A	1,088,376
All other compensation	N/A	387,647	N/A	131,239	N/A	135,002	N/A	119,749	N/A	84,684
Amount per Summary Compensation Table	N/A	50,549,026	N/A	16,416,379	N/A	8,840,758	N/A	5,678,892	N/A	4,335,495

Hearing of the Senate Committee on the Judiciary
"Exploring the Skyrocketing Price of Oil"
May 21, 2008
Questions for the Record
Senator Dianne Feinstein

Questions for all witnesses:

1. According to the May 15th Congressional testimony of the CFTC's Chief Economist and the CFTC's Director of Market Surveillance, oil companies are driving up the price of oil. These experts stated: "Our studies consistently find that when new information comes to the market and prices respond, it is the commercial traders (such as oil companies, utilities, airlines) who react first by adjusting their futures positions. When these commercial traders adjust their futures positions, it is speculators who are most often on the other side of the trade. Price changes that prompt hedgers to alter their futures positions attract speculators who change their positions in response. Simply stated, there is no evidence that position changes by speculators precede price changes for crude oil futures contracts." CFTC believes that oil companies are driving up prices in futures markets, not speculators. Yet, during the Judiciary Committee hearing on May 21, Mr. Stephen Smith of Exxon Mobil asserted that his firm "does not speculate." Does your firm buy or sell positions in crude oil futures markets? If your firm participates in futures markets, can you refute CFTC's assertion that your firms are driving up oil prices?

ConocoPhillips' traders both buy and sell crude oil on the futures market. Our futures contract positions are typically intended to offset the price risk associated with physical commodity purchase and sale transactions that are required to run our refineries and supply consumers. We do not believe our futures market transactions have any net effect on the price of oil. Our reading of the testimony from the Chief Economist of the CFTC is that commercial traders react to new information by adjusting their positions (this could be either up or down). Therefore, new information is driving prices, not commercial traders.

2. Your firms vehemently oppose legislation – such as the 2007 energy bill tax amendment and Senator Reid's recent legislation to tax windfall oil company profits – that would increase the tax burden on oil and gas companies, arguing that increased taxation will lead to higher gas prices for consumers. However, you argued before the Judiciary Committee that your companies are unable to lower the price of oil. You say that you simply take the price in this global marketplace, instead of offering oil for sale at a set price and set mark-up. These two positions seem inconsistent. Do the economics of your firms influence oil prices, and will oil prices go up if your taxes go up? Or do the economics of your firms stand independent of oil prices, and will oil prices be set by demand regardless of the enormous size of your profits? It can't possibly be both.

Oil prices are set by present and future expected supply and demand. Windfall profits taxes reduce dollars available for investment and thereby reduce future supply. Since the resource basins available for drilling in the U.S. are very mature and high cost, windfall profits taxes may also make U.S. prospects uneconomic. That will reduce U.S. production specifically, and make this country more dependent upon imports. That is what happened after the windfall profits tax of the early 1980s. According to the Congressional Research Service, U.S. crude production fell by up to 6 percent and imports rose by up to 16 percent. Lowering future oil supplies will increase crude prices. Given that crude prices are currently about 70 percent of the cost of gasoline, the increase in crude oil prices will raise gasoline prices for consumers.

3. The expense and technical challenge of developing new oil resources in harsh environments such as the Arctic is a frequently heard rationale for large oil industry mergers. Are these projects working out as planned? Can we expect to see large new petroleum resources coming on line in the next few years as a result of mergers?

For U.S. companies to compete in an environment of mega projects, increasingly non-conventional and complicated oil and natural gas reservoirs and increasing national oil company control of resources, they require scale, technical innovation, and financial resources commensurate with the size, complexity and risk of those projects, including those in harsh and challenging locations like the Arctic. We are working on a number of projects and pursuing new opportunities in the Arctic which have the potential to provide more energy resources and enhance the nation's energy security.

At our mature Kuparuk and Prudhoe Bay fields in Alaska we are focused on maximizing the light oil potential that remains and expanding our satellite developments from the Alpine field to the west and into the National Petroleum Reserve (NPR-A).

For the longer term, we are focused on commercializing the large existing gas resources on the Alaskan North Slope and in the Canadian Mackenzie Delta. In April this year, we announced that ConocoPhillips and BP had joined in a multi-year, multi-billion dollar effort to construct the Denali pipeline to move approximately four billion cubic feet of natural gas per day from Alaska to North American markets.

We are also pursuing heavy oil opportunities at our Kuparuk and Prudhoe fields in Alaska, where we are applying our heavy oil experience and technology in an effort to commercialize this large, but very challenged, heavy oil resource. Our ability to unlock the estimated 18 billion barrels of heavy oil resources in the West Sak and Ugnu reservoirs will draw on the combined knowledge, experience and asset positions of many of the heritage companies (i.e. Conoco Inc., Phillips Petroleum Company, Arco Alaska, Gulf Canada, Burlington Resources Inc.) that have made ConocoPhillips what it is today. Several pilot test developments are planned over the coming decade with the hope of achieving large scale production rates in 10-20 years.

On the exploration front, we see significant remaining potential throughout the Arctic region. However, exploration access remains a key issue. Wood Mackenzie predicts 6 billion barrels of oil equivalent of yet-to-find resources are present throughout the Alaskan Arctic region. However, much of this is currently off limits for exploration. If we are to arrest Alaska's steady decline in base production, new petroleum resources must be brought on line and new areas must be opened up for exploration.

Over the last four years the state of Alaska has changed their tax structure to significantly increase taxes on the oil and gas industry three different times. This not only increases the costs associated with oil and gas production and developments, but also adds uncertainty to the predictability of the fiscal structure in Alaska going forward. These tax increases have had and will continue to have an impact on investment in Alaska. Some major projects have been cancelled or deferred in late 2007 and early 2008, due at least in part to tax impacts.

The Qatargas 3 LNG project (QG3) is another example of how the merger between Conoco Inc. and Phillips Petroleum Company benefited from the combination of the companies' complementary competencies. It brought Conoco Inc.'s U.S. gas marketing and Phillips Petroleum Company's LNG expertise together to allow us to do a mega project to develop remote natural gas supplies. QG3 is one of the world's largest liquefied natural gas (LNG) developments and is expected to produce an average of roughly 1 billion cubic feet per day of LNG, including approximately 70,000 barrels a day of liquid product (condensate and LPG) over its 25-year project life. ConocoPhillips will be the sole purchaser of the LNG from QG3, except for approved diversions or third-party sales. As many as 20,000 people will be needed to complete the four-year construction project, with a total of 70 million man-hours. This truly is a mega-project which has drawn on the full size, scale and scope of ConocoPhillips (technically, financially and commercially), and which would not likely have been possible for either of the heritage companies to undertake alone.

ConocoPhillips is also participating in developing the Kashagan field, located in the Kazakhstan sector of the land-locked Caspian Sea. This mega project was viewed to be so challenging by the Soviet Union that they decided not to pursue it. It is now being developed by a group of the largest international oil companies. Kashagan is located in a remote, environmentally sensitive area. The reservoir is deep, with very high pressure and high contents of hydrogen sulfide. This field tests new boundaries such as injecting high sulfur natural gas at very high pressure. The human and capital resource required for development is probably unparalleled in the industry. When it is completed, its maximum production could reach 1.5 million barrels per day.

4. To what extent are your refineries able to defer planned maintenance if and when refined product markets are tight? Has your company ever deferred refinery maintenance to meet a tight marketplace? If so, how frequently has your firm deferred maintenance? At what refineries and on what dates?

4a) To what extent are your refineries able to defer planned maintenance if and when refined product markets are tight?

Maintenance activities and turnarounds are normally planned a year or more in advance and require significant resources. These activities are required for the continued safe and efficient operation of our refineries and to assure sustainable crude refining capabilities and production of transportation fuels. There is limited flexibility to change the schedule once set. We typically plan maintenance during the fall and winter seasons, which historically exhibit lower demand. This keeps prices lower during the high-demand summer driving season.

Most refineries operate many processing units and only shut down portions of their refineries during maintenance periods. During the maintenance activities, refinery production capability is only partially reduced. This makes it possible to continue the production of transportation fuels at reduced volumes.

Maintenance turnarounds require significant pre-planning, labor, equipment and materials resources and product supply alternatives. It should be noted that the labor, equipment and materials resources are in particularly high demand throughout North America since they are competing with the resource demands of large refinery construction projects. Such resources are commonly scheduled and committed more than a year in advance, so changes to turnaround timing are likely to result in the planned, prepared and necessary resources being unavailable. Substituting resources is likely to result in decreased productivity, increased quality and safety risk along with higher cost for the turnaround, with commensurate longer duration (i.e. production outage) extensions and production reliability impairments upon return to operation. Additionally, since major turnarounds can result in lower production, supply alternatives are typically secured well in advance.

We work to improve efficiencies that will lessen the number and duration of scheduled maintenance outages. These efficiency improvements would help maximize the supply of transportation fuels during high-demand seasons.

4b) Has your company ever deferred refinery maintenance to meet a tight marketplace? If so, how frequently has your firm deferred maintenance? At what refineries and on what dates?

Yes, on an infrequent basis and only if it does not compromise the safety of our people and the integrity of our equipment. The most notable changes occurred in the aftermath of Hurricanes Katrina and Rita in the fall of 2005, when our company worked diligently to defer maintenance where we could do so, without compromising safety and quality of work in order to supply additional product to the market.

These changes are shown in the table below.

Refinery	Unit	Plan	Actual	Reason
Ponca City, OK	Crude/FCC	Sep '05	Mar '06	Hurricane
Sweeny, TX	Reformer	Oct '05	Jan '06	Hurricane
Trainer, PA	Vacuum	Sep '05	Nov '05	Hurricane
Wood River, IL	HCU	Sep '05	Oct '05	Hurricane

5. With constraints on the expansion of refinery capacity in California, how do you foresee meeting demand for gasoline and diesel in the future?

ConocoPhillips is expanding capacity to make clean fuels at our Rodeo refinery outside of San Francisco. We also plan to import gasoline and diesel blending components, finished gasoline and diesel fuel either through our Southern and Northern California refineries or through third-party terminals to meet California's growing fuel requirements. This assumes that ConocoPhillips will continue to have access to existing docks and storage tanks in the ports of Los Angeles, Richmond, Rodeo and Selby. Sources of product imports include the Pacific Northwest, the U.S. Gulf Coast, Asia Pacific and Europe. All of these import sources require longer lead time to deliver to the California market, making it much more difficult to respond to a supply deficit that can arise quickly from an operational upset at a local refinery. There are also a limited number of refineries outside of California that can meet California's unique product specifications.

Most ethanol is produced in the U.S. Midwest or South America and transported to California by rail and ship. The logistical infrastructure that supports ethanol delivery and supply to product terminals is presently operating at capacity and will require investment before blending volumes can be increased. Delays in permitting these capital improvements will limit blended gasoline supply.

6. According to initial research by the Government Accountability Office conducted at my request, the San Francisco Bay area has a significant degree of refinery market concentration. San Francisco also consistently has some of the highest gasoline prices in the United States – higher than other regions of California that must use the same reformulated gasoline. Do you believe that the high degree of market concentration among refineries in the San Francisco Bay Area is causing higher gasoline prices in this area?

We do not believe that refinery concentration explains the difference between gasoline prices in San Francisco and Los Angeles because we do not see any appreciable difference in market concentration between northern and southern refinery districts.

The April 2000 GAO study on California Gasoline Price Behavior indicated that retail gasoline prices were 11 cents higher in San Francisco than in Los Angeles for the period from January 1992 through December 1999 due to differences in local supply and demand conditions. The supply and demand conditions included (1) the number and location of retail gasoline stations, (2) the costs of building and operating gasoline stations, and (3) consumers' incomes.[21] A spring 2006 study conducted by the California Energy Commission for the Governor of California corroborated these results. The study indicated that "cities such as ... San Francisco ... can be characterized as having above average land values that may affect the retail price."[22]

7. How do pipeline and port constraints affect your ability to provide adequate supplies of fuel to consumers?

Increases in port constraints and operational permit limitations add to the cost of supplying crude oil to our California refineries and to the cost of importing gasoline and diesel fuel blendstocks and finished products to meet supply shortfalls. With California domestic crude production in decline at an average annual rate of 3-5 percent, ConocoPhillips and other California refiners have a growing need to increase waterborne receipts of crude to process in local refineries. Capacity growth is limited for most crude terminals due to emission permit limits, berth water depth (draft) and dock length as well as channel depth. Limited berth and channel depth prevents the large and most efficient crude oil tankers (Very Large Crude Carriers or VLCCs) from discharging efficiently in California. Instead, additional cost is incurred to lighter smaller vessels to deliver crude from VLCCs or to use smaller-sized and less efficient ships. Some docks are almost at full capacity today and additional berth capacity is needed to accommodate crude being shipped in from other regions or countries to replace the declining crude production in California. Without additional crude import capacity, local refineries will not be able to run at full operating rates over time. Also, with the shift from predominantly receiving small parcels or batches of domestic crude via California pipelines to receiving more frequent larger volume waterborne supply, refineries will require additional storage to be able to receive larger parcels of crude at one time. The years of delay in attaining construction and operating permits for the much needed Pier 400 berth in the Port of Los Angeles, associated tankage and pipeline connections to existing crude pipeline networks has escalated the cost to construct it, which increases the cost of waterborne crude deliveries to local refineries.

[21] U.S. General Accounting Office, "California Gasoline Price Behavior," April 2000, pages 4-5
[22] California Energy Commission, "Spring 2006 Petroleum Fuels Price Spike: Report to the Governor," August 2006, page 61

The importation of products into Southern California is already at capacity due to the constrained logistical infrastructure at the ports. Facilitating appropriate product and blendstock imports will become even more challenging in the near future in Los Angeles as the port is proposing to consolidate at least two existing operating docks into one. Moving the volumes associated with two docks into one dock will exacerbate scheduling conflicts between products and customers and create supply delays. In addition, it will not allow for import growth that will be required in the future. Dock scheduling bottlenecks will not only increase the cost of supply as barges and vessels incur demurrage waiting to discharge but they will also create short-term supply shortages and subsequent price spikes as staging windows to supply pre-committed pipeline cycles will be missed more frequently.

In Northern California, the Kinder Morgan Energy common carrier product gathering system is close to full capacity and requires additional pumping capacity and pipe connections to facilitate incremental supply reaching outlying terminal distribution facilities. Delays in permitting these improvements would prevent incremental supply from local refineries and imports from reaching the market efficiently. Delays in permitting approval to increase volume throughput limits at distribution terminals, constructing additional tankage and truck loading lanes throughout the state could also contribute to supply outages.

8. Given the importance of free market competition to the energy sector, what is your view of the current 54 cent a gallon tariff on ethanol imports into the United States? Do you believe Congress should reduce the tariff, at least to the $0.45 per gallon level that blenders receive for using ethanol in the United States? Would you endorse legislation to do this?

We believe the tariff on imported ethanol should be eliminated. If the nation is concerned about reducing fuel costs and carbon emissions, policies and taxes that discourage lower-cost and less carbon-intensive imports, such as sugar-based ethanol from Brazil, are counter-productive. We would endorse legislation to do this.

9. It would appear that Russia is currently working to lay claim to the North Pole and its natural resources. How would you like to see the situation resolved? What role should the U.S. government play?

ConocoPhillips believes energy security is a crucial issue for the United States. Therefore, the ardent and persistent protection of U.S. sovereign territories, U.S. rights of access to resources, and other U.S. interests would seem to be a fundamental role and responsibility of the Government of the United States of America on behalf of all U.S. citizens. As a corporate citizen of the United States, ConocoPhillips urges the U.S. government to fulfill this role and responsibility to its citizens. As an important part of this effort, the United States government should strongly support responsible energy activities conducted in those areas of the Arctic and other regions in which it already has clear rights, namely, the U.S. Outer Continental Shelf and the lands that abut them. Much of the information about the scope and extent of subsea geology and geography in the Arctic (and the technologies required for detailed mapping) will be quickly acquired by the U.S. government through the timely exploration of these areas by its corporate citizens having the experience and capabilities, such as the private energy sector. Furthermore, the U.S. is the world leader in environmentally-sound energy development in the Arctic and is best placed to ensure environmental stewardship and sustainability in the development of these energy resources, benefiting not only U.S. citizens but the global community. By promoting responsible development in our own Arctic areas recently leased in the Chukchi Sea and Outer Continental Shelf, the United States can also demonstrate to the world that it is best qualified to develop natural resources in the Arctic beyond the Outer Continental Shelf.

10. Over half, and in some cases, roughly 75% of the proven reserves of a number of American oil companies are located abroad. Looking at, say, Venezuela as an example, it seems possible that we are beginning to see a new wave of energy resource nationalizations. How is your company working to protect shareholders from the adverse consequences of such actions?

The increasing trend in energy resource nationalization is another big concern of ConocoPhillips'. This is especially troubling when the nationalizing government neither honors its promises nor the contract terms it offered as an incentive to ConocoPhillips for making enormous and otherwise risky investments of capital, technical knowledge, personnel, and time in the development of their natural resource and their economy in general. Although of great harm to the shareholders of ConocoPhillips, we believe the increasing number of partial and total nationalizations of energy resources may have an even greater negative consequence for energy security and the economic well being of U.S. citizens.

In deciding to make these multi-billion dollar investments, ConocoPhillips balances the likely and potential rewards from its investments against the risks of nationalization, inflationary forces affecting costs of development and long-term production, strength of the U.S. dollar, geological and other resource risks, recessions and other product demand destroyers, and many other risks. These risks can sometimes be mitigated for our shareholders by (1) making investments in states and countries which have a stable fiscal policy and a reputation for honoring their promises, (2) obtaining enforceable contract commitments from the host government to stabilize its fiscal take for the long-term investment, to resolve all disputes arising from the investment through international arbitration, and to make its assets available for attachment within the signatory nations of the New York Convention to satisfy an arbitration award, and (3) making the investment under the protection of a bilateral or multilateral investment treaty which is suitable for long-term energy projects.

Although we can potentially mitigate the risks for shareholders, we cannot mitigate the risks for the energy-consuming public. U.S. energy consumers need the U.S. Congress to complement our efforts by increasing access to secure sources of supply in the United States.

Our responses to the requests made by the Committee on the Judiciary of the U.S. Senate contain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. Economic, business, competitive and regulatory factors that may affect ConocoPhillips' business are generally as set forth in ConocoPhillips' filings with the Securities and Exchange Commission.