STATEMENT OF RANDY L. LIMBACHER

EXECUTIVE VICE PRESIDENT, CONOCOPHILLIPS

BEFORE THE

HOUSE GOVERNMENT REFORM

SUBCOMMITTEE ON ENERGY & RESOURCES

WEDNESDAY, JUNE 21, 2006

Good morning Mr. Chairman and Members of the Subcommittee. My name is Randy L. Limbacher and I serve as Executive Vice President, Exploration and Production—Americas for ConocoPhillips. Prior to my current position, I was Executive Vice President and Chief Operating Officer at Burlington Resources, where I also served on the Board. During my career, I have also held various engineering positions with Burlington, Mobil and Superior Oil.

ConocoPhillips is the third largest integrated energy company in the United States, based on market capitalization, and oil and gas proved reserves and production, and the second largest refiner in the United States. Headquartered in Houston, Texas, ConocoPhillips operates in approximately 40 countries, with about 35,600 employees worldwide and assets of $107 billion. We continue to have a strong presence in the United States.

I am pleased to appear before the Subcommittee this morning to address ConocoPhillips' holdings in federal offshore oil and gas leases that were issued by the Department of the Interior during 1998 and 1999 and that do not incorporate price thresholds with respect to applicability of royalty relief for deep water production.

Before I get to the core of this testimony, I would like to emphasize that ConocoPhillips' current upstream asset base consists primarily of the heritage assets of Conoco Inc., Phillips Petroleum Company, and Burlington Resources Inc., three previously independent companies that have combined over the past three years to create ConocoPhillips. The prior actions or positions taken by any one of these companies is not necessarily reflective of those of ConocoPhillips.

In the relatively short time available we have conducted a review of our lease files and as a result have determined that ConocoPhillips presently holds interests in thirty-four leases issued during 1998 and 1999 that do not incorporate price thresholds with respect to the eligibility for royalty relief for deep water production. While some of these leases were acquired by one of our heritage companies at OCS lease sales directly from the Department of the Interior, others were obtained in transactions with other companies. In addition, ConocoPhillips has relinquished or transferred to others interests in leases that its heritage companies acquired during this time frame. However, regardless of the manner obtained, the most important point for this Committee's understanding is that **none** of these thirty-four leases are producing oil or gas and, as a consequence, no deep water royalty relief is presently being taken by ConocoPhillips.

I am aware of the recent controversy concerning the appropriateness of royalty relief for deepwater production in today's oil and gas pricing environment. However, this has not been a significant issue for ConocoPhillips as our company has not been in a position to make use of these incentives under our 1998 and 1999 leases.

With respect to the specific questions contained in the Subcommittee's letter to ConocoPhillips dated June 12, 2006, we would offer the following:

1. **Industry's reaction to the Deepwater Royalty Relief issue with respect to leases with no price thresholds issued during 1998 and 1999.**

As noted above, ConocoPhillips does not presently hold interests in producing leases that are eligible for royalty relief without price thresholds for deep water production. Consequently, this has not been a significant issue for our company and we are not well positioned to add to the existing debate on this matter.

While ConocoPhillips may in the future develop one or more of these leases to produce oil and/or natural gas, the timing of when such production may occur, as well as the then existing pricing environment for oil and gas, drilling and infrastructure development costs (to name a few key economic parameters impacting and oil and gas development, particularly in deep water) are so uncertain at present and unique to each individual lease development decision as to make any general statement about our company's position on deep water royalty relief in the future too speculative. Royalty relief would be only one part of the evaluation of lease development economics and in all likelihood would only serve to allow an economically marginal project a better chance of being developed.

We can say that it is ConocoPhillips' current policy that we do not believe royalty relief in the current price environment is justifiable, thus the reason for thresholds, and we are not pursuing such relief.

2. **Explanation of the processes by which ConocoPhillips reviews, negotiates, approves and enters into leases on a general basis but more particularly during the 1998 and 1999 timeframe.**

ConocoPhillips evaluates a number of factors in determining whether or not to attempt to acquire available acreage, to include geologic prospectivity, the likelihood of developing resources to provide an economic return, synergies with our existing asset base, and how the acreage compares in these and other measures with other investment opportunities available on a global basis. If the acreage is determined to be attractive, then after obtaining required approvals the company will seek to enter into an agreement with the resource owner to explore for and, if successful, to develop the resource. In some cases, this effort requires extensive negotiations, involving substantial give and take with respect to commercial terms and risk sharing, with the resource owner.

With regard to the tender of leases for Federal acreage the leasing process is well established by Federal regulation and in our experience involves no material discussion or negotiation between a prospective lessee and the Department of the Interior with respect to the terms of the lease. The terms and conditions for Federal lease sales are developed and published by the Department of the Interior and the bidding and award of federal leases is done pursuant to a public tender process. Only in the event that a bidder is successful would they then be provided the lease agreement for execution.

While I am unaware of the specific circumstances concerning ConocoPhillips' evaluation of federal deepwater acreage available in the 1998 to 1999 time frame, my view is that the company would likely have followed this same general approach.

3. **How ConocoPhillips regularly interfaces with the Department of the Interior, including whether COP had any contact regarding the interim and final regulations that implemented the Deep Water Royalty Relief Act.**

   I am unaware of any direct contacts made by ConocoPhillips employees with Interior Department employees with respect to interim and final regulations that implemented the Deep Water Royalty Relief Act.

4. **Whether COP ever raised issue with the omission of price thresholds in the final notices of sale and the leases themselves.**

   I am unaware of any direct contacts made by ConocoPhillips employees with Interior Department employees with respect to the omission of price thresholds in oil and gas lease sales during the 1998-1999 timeframe. However, in my experience it would be highly unusual for a prospective federal oil and gas lessee to have direct contact with Department of the Interior employees concerning lease terms, which are generally not subject to negotiation.

Mr. Chairman, as you might imagine, with the numerous mergers that we have undergone in recent years to become ConocoPhillips, our federal lease holdings have undergone constant change. The information presented here today reflects our current lease

situation regarding leases issued in the period of question. I would be most happy to respond to any questions that Members of the Subcommittee might have relating to our leasing practices or related subjects. Thank you, again.