

**ConocoPhillips Testimony for House Energy and Commerce Committee  
The U.S. Climate Action Partnership Hearing  
April 22, 2009**

Mr. Chairman and Members of the Committee,

Thank you for your invitation to appear before you as a member of USCAP. I am Red Cavaney, Senior Vice President, Government Affairs for ConocoPhillips. I am pleased to be here today to participate in this important hearing on behalf of USCAP and to reiterate ConocoPhillips' support for development of a comprehensive, national climate protection program that addresses greenhouse gas {"GHG"} emissions while ensuring the availability of the secure, affordable and reliable energy supply necessary for continued economic recovery and growth. ConocoPhillips supports the integrated set of policy recommendations contained in the USCAP *Blueprint for Legislative Action* {"Blueprint"} as a viable path forward. We are pleased that the Committee members and their staff have found the USCAP proposal useful when drafting the American Clean Energy and Security Act of 2009 discussion draft {"Draft"}. For the purposes of this hearing I have been asked to speak on behalf of USCAP about the potential impact of climate policy on American transportation consumers. In addition, I will also mention several policy areas that are of particular importance to ConocoPhillips and our industry.

ConocoPhillips recognizes that human activity, including the burning of fossil fuels, is contributing to increased concentrations of GHGs in the atmosphere that can lead to adverse changes in global climate. We joined USCAP in the spring of 2007 because we believed the energy industry has much to contribute to the U.S. climate policy dialogue. Our partnership with USCAP represents a unique opportunity for effective public policy engagement. We have valued the mutual learning that has taken place among USCAP members and we are pleased with the reception that the Blueprint has received both within the halls of Congress and with a variety of other stakeholders.

ConocoPhillips' view is that a mandatory U.S. national climate protection program linked to other national and international programs offers the best policy approach for achieving meaningful

global GHG reductions. We continue to hold this position not only because of the environmental, social and economic significance of the issue but also because we believe there is a firm business case for this position. First, we believe that a well-designed federal climate protection program, as opposed to multiple state/regional initiatives and other alternatives, would result in a more efficient and less costly approach to addressing GHG emissions and the impacts of climate change. Second, industry needs a consistent and enduring climate change program to provide the regulatory certainty necessary to make informed, long-term investment decisions regarding the development and use of future energy supplies. Finally, we believe such policy can create business opportunity. For example, we believe U.S. climate policy should be designed to optimize the use of cleaner burning natural gas as a transition fuel to a low carbon economy. In addition, well designed climate policy will create new opportunities in areas such as deployment of carbon capture and storage, and development of new energy technologies.

ConocoPhillips recognizes that public policy to address climate change will come at a cost to U.S. consumers and businesses, but we are confident that in the long run the benefits to the overall American economy will outweigh those costs. However, to quote economist John Maynard Keynes, the “long run is a misleading guide to current affairs. In the long run we are all dead.” In these challenging economic times individuals and companies may not take much comfort in the promise of future benefits as they struggle to make a mortgage payment or make payroll. This is why USCAP believes it is critically important that any climate change policy includes provisions aimed at dampening the impact of the policy on consumers and business. It is evident from the details of the Draft that the Chairman Waxman and Chairman Markey share this belief.

During the transition to a low-carbon economy, the USCAP Blueprint addresses the need to mitigate the financial impacts of climate policy on consumers, businesses and the overall economy. Specifically, USCAP believes a significant share of the allowance value should be used to buffer the impacts of increased costs to consumers at the end of the energy supply chain. The purpose of directing allowance value to end-use energy consumers is to avoid disruptive

price shocks that could accompany the initial phase of implementing the climate protection legislation described in the Blueprint.

As a major provider of transportation fuel to the U.S. consumer, ConocoPhillips is keenly aware of how sensitive most consumers are to increases in the price of gasoline at the pump. While fully embedding the cost of GHG emissions from the consumption of gasoline in the price of gasoline will add approximately 10 cents per gallon for every \$10 per ton cost of CO<sub>2</sub>, we know that even this increase may cause hardship for many of our customers. Perhaps as important is the fact that for many, the gasoline pump will be where they come face-to-face with the cost of climate policy on a daily basis, and public reaction to that cost will have implications for public acceptance and continued support for U.S. climate policy. Because GHG emissions from the use of transportation fuels represent nearly one-third of total U.S. GHG emissions, they must be addressed as part of any comprehensive climate change policy. To address the impact of climate policy on transportation fuel consumers, USCAP recommends the judicious use of allowance value to ensure that consumer's transportation fuel impacts from allowance prices are generally proportionate to their electricity and natural gas impacts. The Blueprint suggests that allowance value for transportation consumers could be applied, for example, to providing vouchers or subsidies to consumer purchase of high efficiency and electric vehicles, to public transportation and to other means of reducing transportation fuel consumption.

Reducing end-use emissions from the transportation sector will be complicated, requiring a systematic approach that involves fuel providers, vehicle and equipment manufacturers, consumers, public officials and policy makers. ConocoPhillips believes it will be important for policy makers to fully consider all the various direct and indirect cost impacts to the consumer associated with the regulation of transportation sector GHG emissions. In addition to direct costs to consumers from carbon regulation, there will be costs associated with implementation of fuel and vehicle emissions standards, with transportation infrastructure improvement, and potentially with disruptions to the US refining system that could result if fuel providers are forced to close

facilities due to an inability to pass along the full cost of compliance, including the management of consumer emissions.

In addition to the direct application of allowance value to mitigate the initial financial impacts of a climate program on consumers, other Blueprint recommendations in areas such as cost containment and technology support will have the effect of keeping the cost of compliance with the program within acceptable limits and continuously driving down the cost of low carbon energy sources and solutions.

The U.S. faces an urgent need to make the country more energy secure and to take meaningful action to slow, stop and reverse GHG emissions to address climate change. The country needs an environmentally effective and economically sustainable national climate protection program that includes both quantitative GHG emission reduction goals and robust provisions to protect the U.S. economy. The American Clean Energy and Security Act discussion draft represents a meaningful step towards that end. As a major U.S. producer of oil and gas and major producer of refined transportation fuel, ConocoPhillips has significant interest in a wide range of issues addressed in the Draft and we stand ready to work with the Committee, particularly on those areas where we have the most to contribute.

The oil and gas sector is a critical component of the U.S. economy, responsibly developing our domestic reserves, fueling our transportation system, and directly or indirectly creating millions of U.S. jobs. Under the provisions of the Draft, this sector would face a multi-billion dollar annual compliance obligation as the point of regulation for emissions from end-use transportation fuels. This would be in addition to compliance obligations associated with our own GHG emissions and with the current Renewable Fuels Standard {"RFS"}. It is vital that the mechanisms for allowance allocation to trade-exposed energy-intensive industries are applied fairly and in a way that comprehends the fundamentals of how these markets work. We are deeply concerned about our ability to fully pass on these costs of compliance and the potential implications that even a small

percentage of unrecoverable costs could have on what is historically a low-margin business. The reduction in U.S. refining capacity that could result would lead to increased transportation fuel imports, erosion of our national energy security, and further loss of American jobs.

We are also actively evaluating provisions in the Draft that would result in an overlay of a Low Carbon Fuel Standard with the existing RFS, a condition that would not be aligned with the USCAP Blueprint. We are ready to offer suggestions on this provision of the Draft. In addition, we share the concerns of other USCAP members who feel that the cost containment provisions of the Draft may not be adequate to protect the economy against sustained high allowance prices.

ConocoPhillips is actively conducting research and development and evaluating projects to deliver low carbon energy to meet a growing world's needs. We believe carbon capture and sequestration {CCS} holds significant promise to enabling the continued use of secure fossil fuels. We were pleased to see several provisions in the Draft to support development and deployment of CCS and we would urge the Committee to ensure those provisions apply without discrimination to all applications of this important technology.

Finally, like other key stakeholders, we have additional suggestions for the Draft that we feel would contribute to development of an effective and efficient climate bill. ConocoPhillips and the other members of USCAP remain committed to helping this Congress find cost-effective approaches to addressing the dual challenges of climate change and energy security.

Based on the recent and ongoing work of this Committee, we are encouraged by the potential of a path forward that could achieve broad support both within the halls of Congress and in homes across America. We applaud the deliberate speed with which Chairman Waxman and Chairman Markey are moving to enact legislation.

Again Mr. Chairman on behalf of ConocoPhillips we thank you for the opportunity to participate in today's hearing. We look forward to continued collaboration on this important issue.