



  
**ConocoPhillips**

**Key Questions on Energy &  
Environmental Challenges**

**International Energy Workshop**

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## FOR THE PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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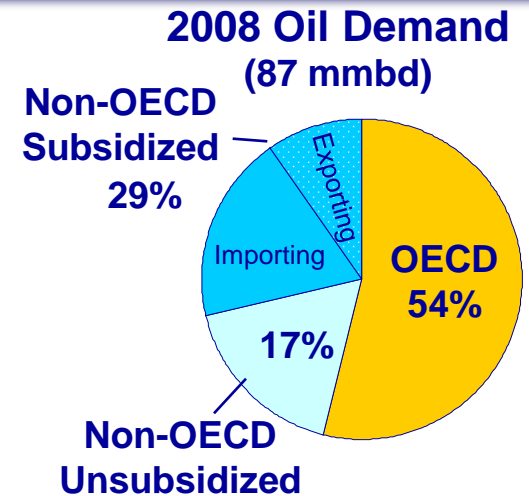
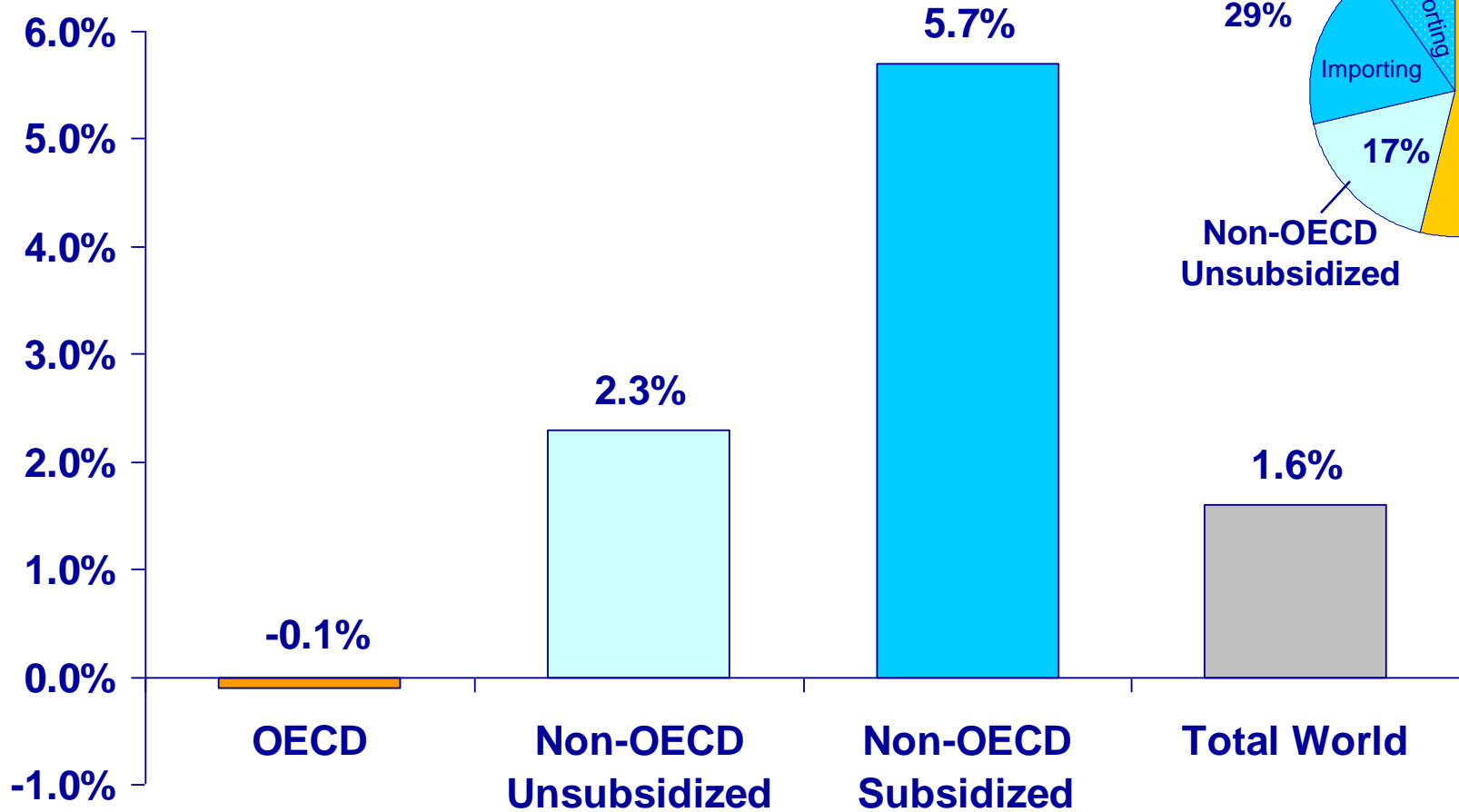
This presentation includes certain non-GAAP financial measures, as indicated. Such non-GAAP measures are intended to supplement, not substitute for, comparable GAAP measures. Investors are urged to consider closely the comparable GAAP measure and the reconciliation to that measure provided in the Appendix or on our website at [www.conocophillips.com](http://www.conocophillips.com).

# Energy Demand

- **What is the elasticity of demand with regard to price in developing countries and how is that impacted by price subsidies and controls?**
  - **How does that differ between net oil importing and exporting nations?**
- **Is demand becoming more elastic with regard to price in industrialized countries with the growing capability to substitute biofuels?**
- **What energy prices are needed to ration demand to meet modest supply growth?**

# Effect of Subsidies on Global Oil Demand

## Rate of Oil Demand Growth (% per year)

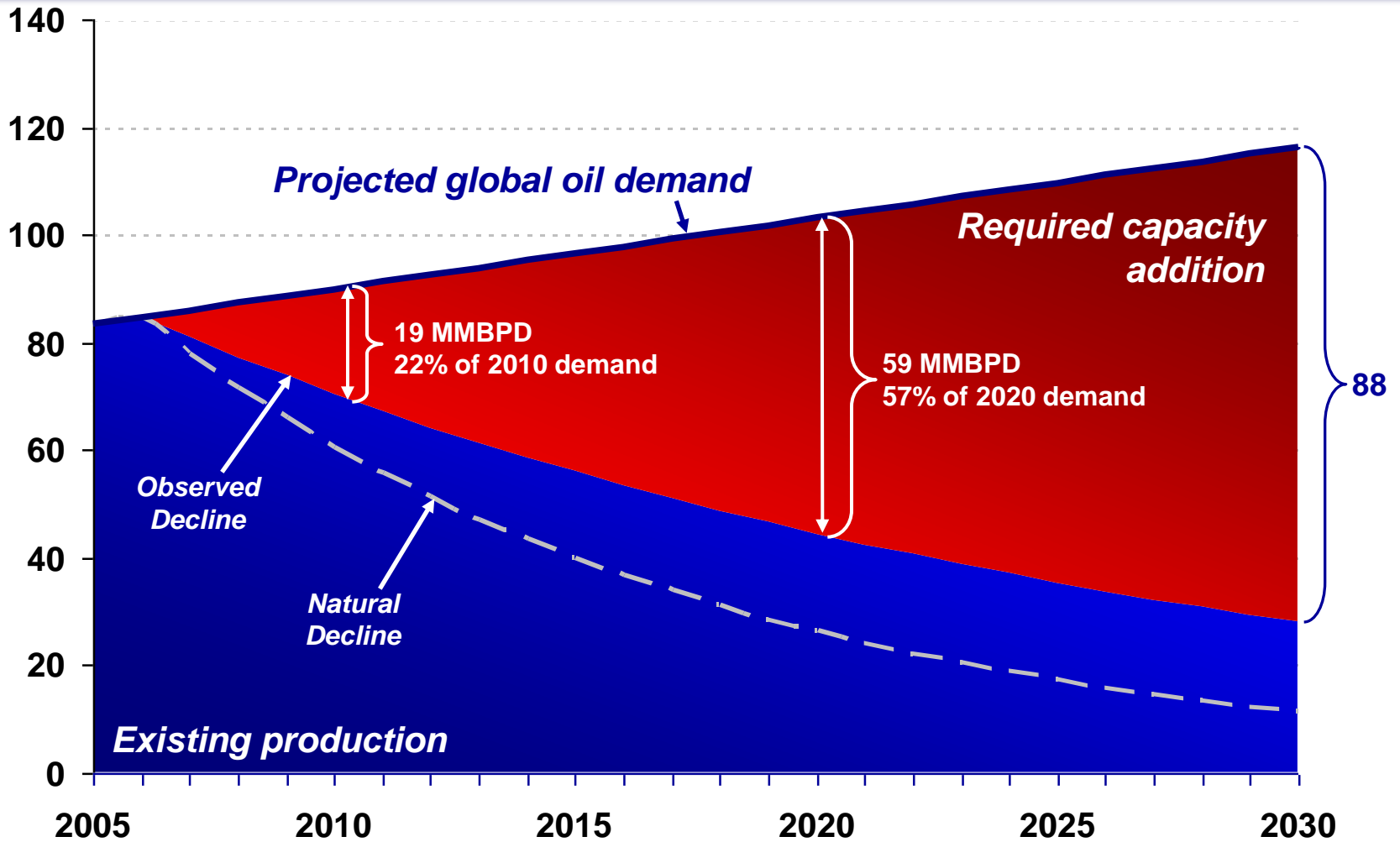


# Energy Supply

- **What are the natural decline rates in existing global production?**
  - How much investment is needed just to get to the observed production decline rates?
- **What is the impact of producing country tax increases on production and supply expansion?**
  - What is the impact on marginal reserve replacement cost?
- **What are the infrastructure requirements associated with energy demand growth?**
  - What are the specific requirements for biofuels and renewable power sources?

# Rate of Production Decline in Oil Production

MMBPD



Observed Decline

Natural Decline

Existing production

Projected global oil demand

Required capacity addition

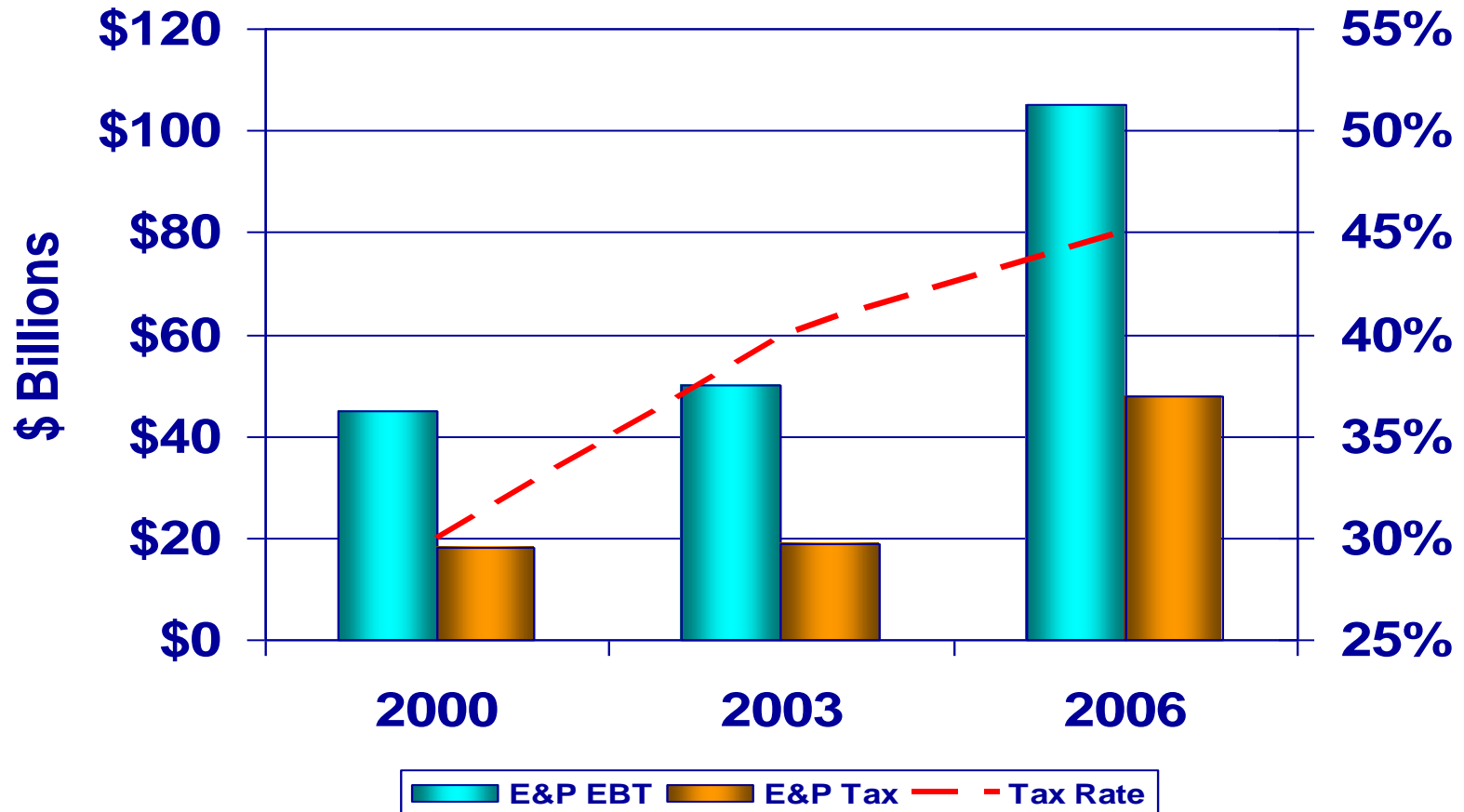
19 MMBPD  
22% of 2010 demand

59 MMBPD  
57% of 2020 demand

88

# Rising Taxation On Exploration & Production

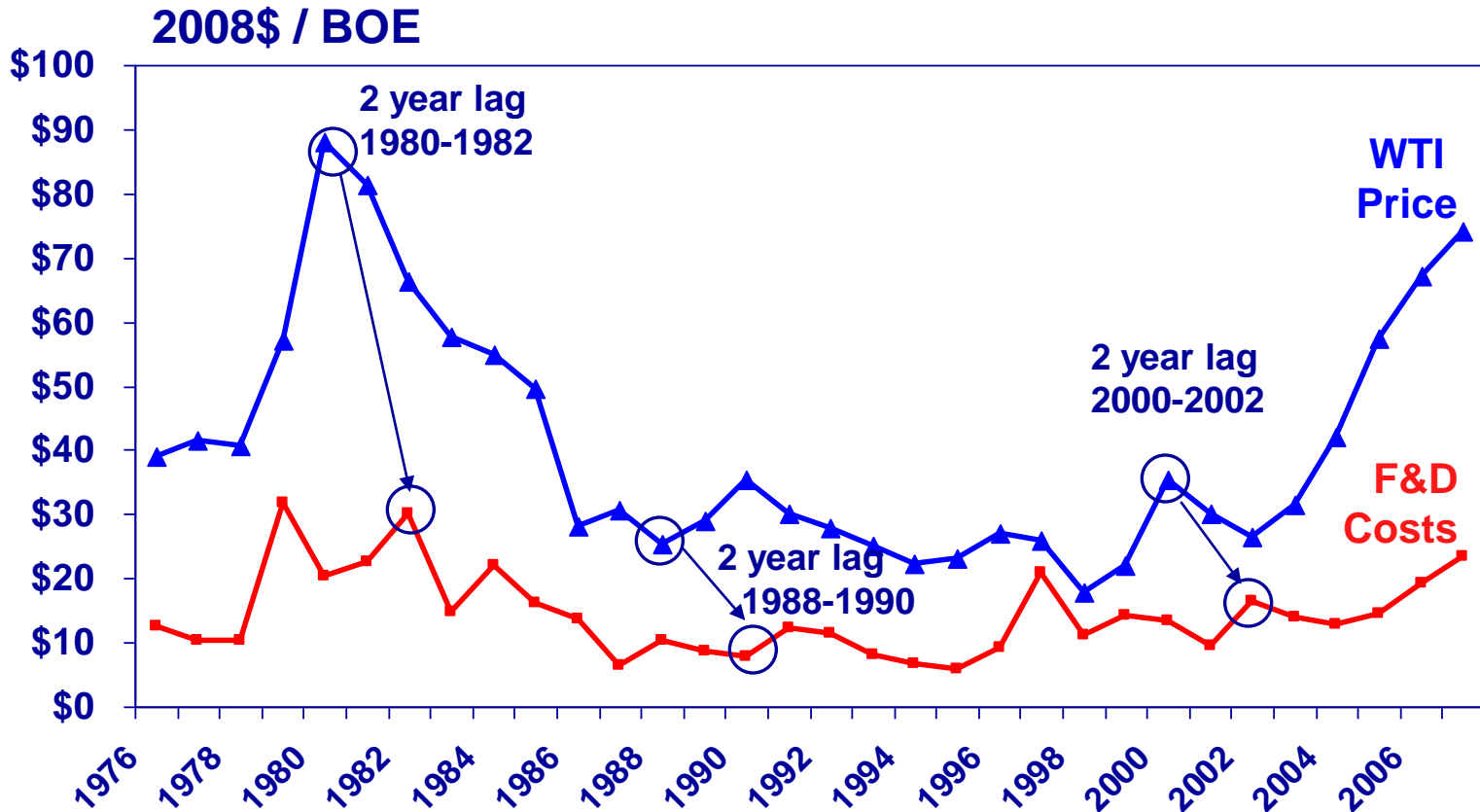
Integrated Major Oil Companies EBT and Taxes



# Cost of New Energy Supplies

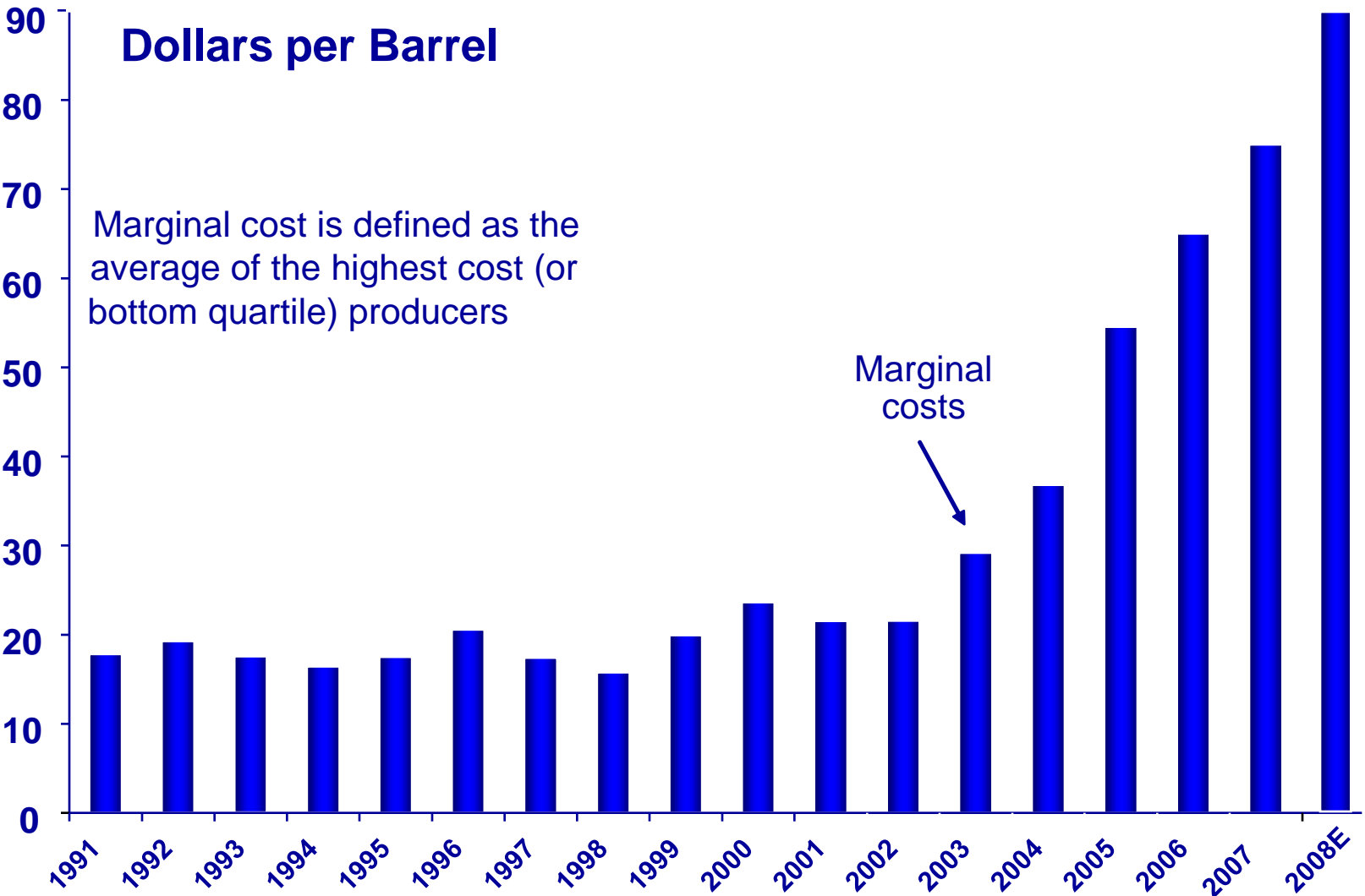
- **What is marginal reserve replacement cost today?**
- **How much of the cost inflation is cyclical versus structural?**
- **How much cost deflation will there be, if any?**
- **What do alternative energy sources really cost in this inflationary environment?**

# Industry F&D Costs vs. WTI Prices



Industry costs have followed oil prices with a 2 year lag

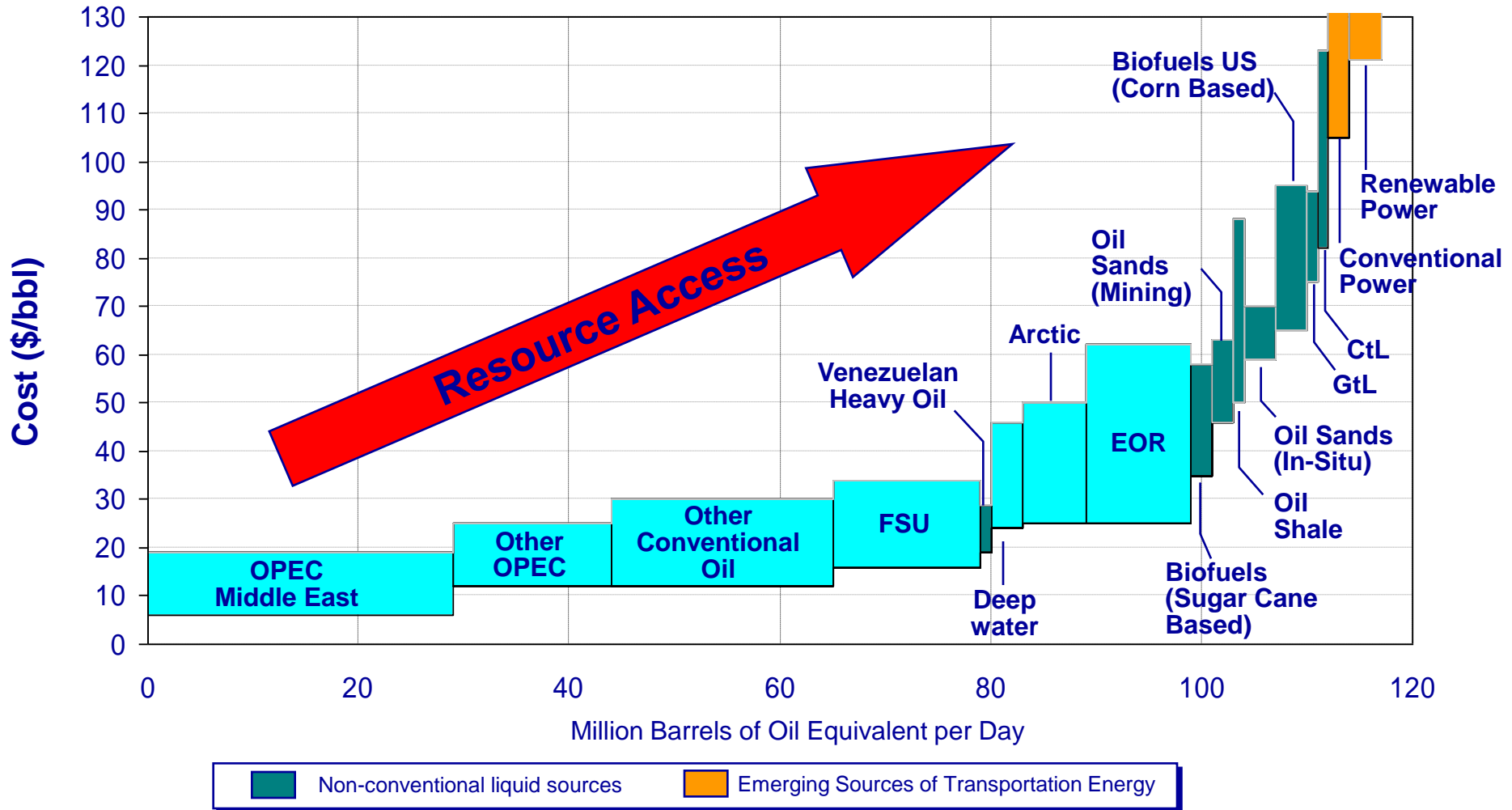
# Marginal Reserve Replacement Costs



Source: Goldman Sachs Commodities Research

# Structural Increase in Cost of Supplies

## Transportation Fuels Supply Curve – 2020

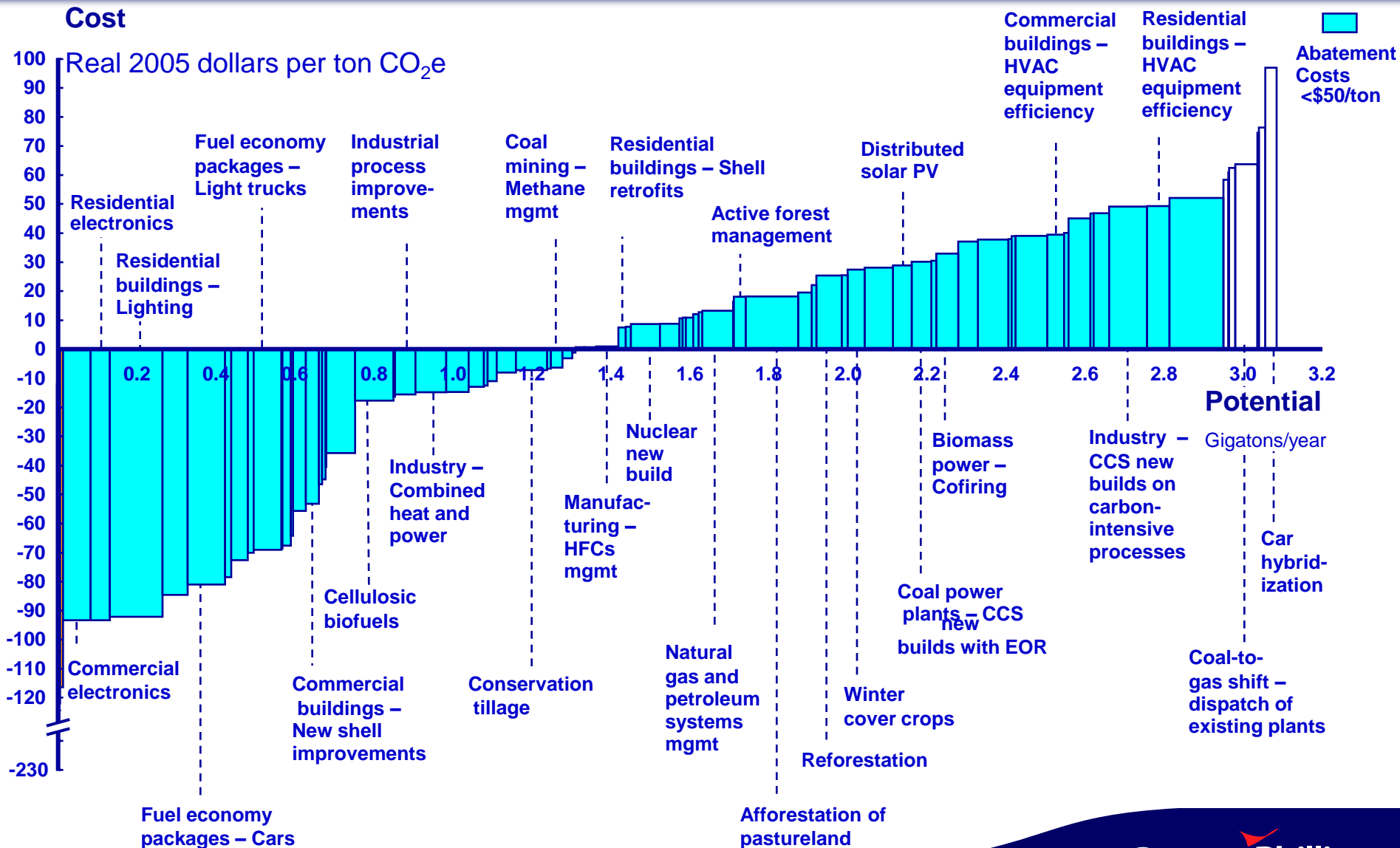


Assumed avg. vs. marginal costs; 10% return for conventional and 13% return for unconventional technologies;  
 no subsidies for biofuels; no carbon offset costs; after production taxes, before income taxes  
 Source: Booz and Company

# Reducing CO<sub>2</sub> Emissions

- **Standardization of full life-cycle analysis in calculating carbon intensity of fuel sources**
- **Costs of reducing CO<sub>2</sub> emissions in energy supplies**
  - **Discount rates**
  - **Taxes**
  - **Cost structure**
  - **Natural gas prices**
  - **Costs of CCS**
- **Impacts on consumer energy prices and economic growth**
  - **Cost pass-through**

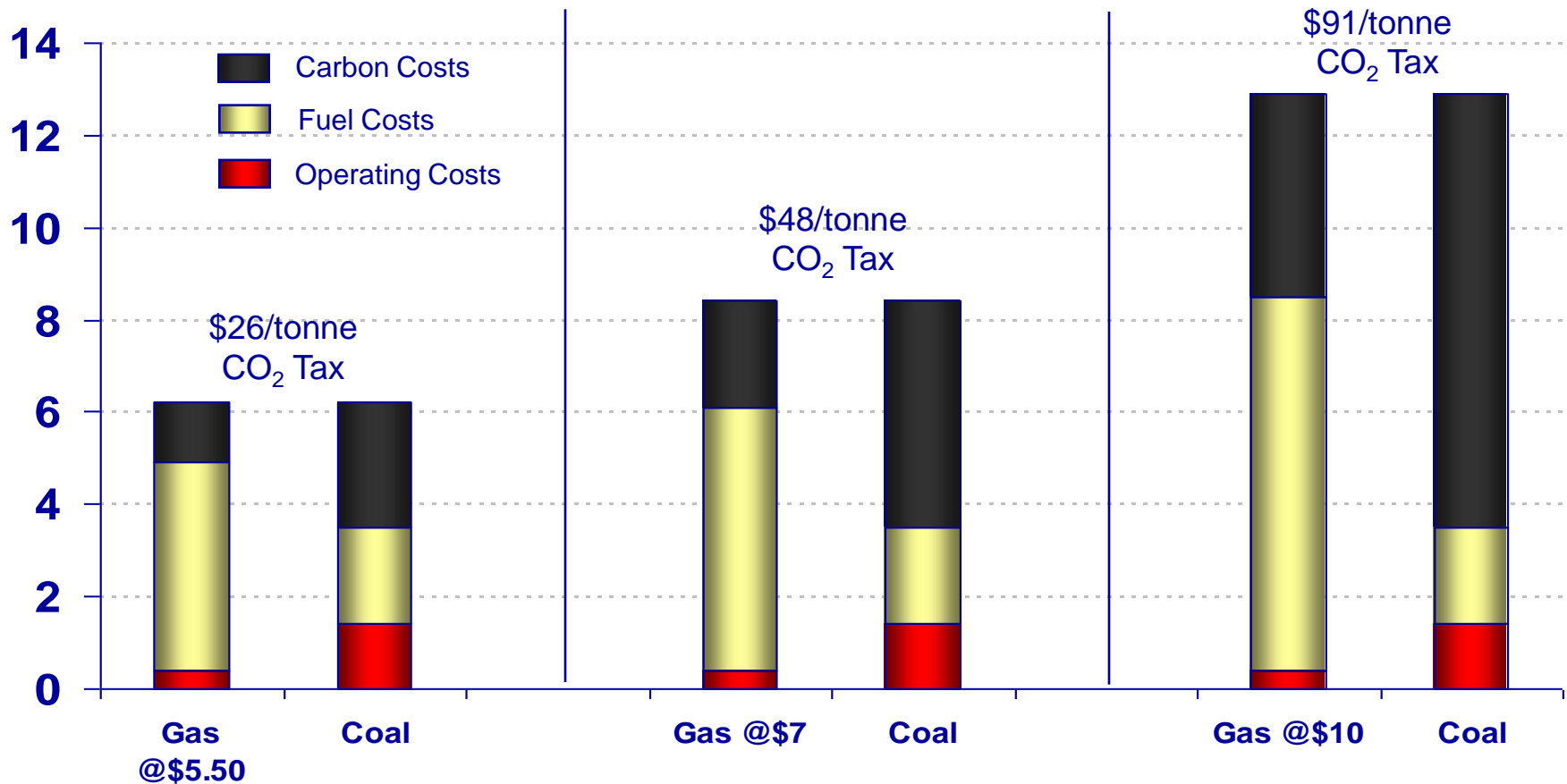
# GHG Emissions Reductions Cost Curve – 2030



# Higher Natural Gas Prices Equate to Higher CO<sub>2</sub> Prices

CO<sub>2</sub> Price Needed to Shift Dispatch from Coal to Natural Gas in Existing Plants

Cents per KWH



# Other Environmental Issues

- **Water intensity of energy supplies**
- **Food versus fuel issues for biofuels**
  - **How much is biofuels use impacting food prices?**