John S. Haley
Director, Upstream Special Projects
Crude Oil Supply & Trading, N.A.

Conoco Inc.
Cherokee, 3080
600 North Dairy Ashford (77079-1175)
P.O. Box 2197
Houston, TX 77252-2197
(281) 293-1683 Fax: (281) 293-2352
john.s.haley@usa.conoco.com

M. S. (Mac) Curtis
General Manager
Crude Oil Supply & Trading,
North America

Conoco Inc.
600 North Dairy Ashford (77079-6651)
P.O. Box 2197
Houston, TX 77252-2197
(281) 293-3489
Fax: (281) 293-6130

Statement from Mac Curtis
General Manager for Crude Oil
Supply & Trading for Conoco - 4/7/99

MY NAME IS MAC CURTIS ... I'M G.M. CRUDE OIL SUPPLY & TRADING FOR CONOCO

WITH ME IS MR. JOHN HALEY ... DIRECTOR - UPSTREAM SPECIAL PROJECTS

JOHN WORKS FOR ME, AND AMONG OTHER THINGS HE IS OUR REDISENT EXPERT FROM A BUSINESS PERSPECTIVE ON THESE MATTERS.

BETWEEN US WE HAVE 55 YEARS EXPERIENCE IN SUPPLY & TRANSPORTATION & MARKETING ... ALL WITH CONOCO.

NEITHER OF US ARE ATTORNEYS, ACCOUNTANTS OR LOBBYISTS SO BEAR WITH ME IF I DON'T PHRASE THINGS IN FAMILIAR TERMS TO THIS ROOM

MY CORPORATE RESPONSIBILITIES ARE FUNDAMENTALLY TWO FOLD
- MARKET CONOCO'S PRODUCTION
- ACQUIRE CONOCO'S REFINERY SUPPLY FROM FOREIGN & DOMESTIC SOURCES

I'M GOING TO READ BECAUSE...

FOR REFERENCE, CONOCO IS DOMESTICALLY CRUDE SHORT & HAS BEEN FOR AS LONG AS I CAN REMEMBER.
- RUN 500 MBD +
- PRODUCE 50 MBD + — USED TO BE MORE NOREFULLY SOON WILL BE AGAIN.
- PURCHASE 450 MBD — 90% OF OUR DEMAND
  - 50% IS DOMESTIC SOURCED
  - 100 MBPD FROM INDEPENDENT PRODUCERS

I REFERENCE THIS BECAUSE I WANT YOU TO UNDERSTAND THAT WE HAVE HAD A SUSTAINED L-T PRESENCE IN THESE MARKETS.... AND WE UNDERSTAND THE BUSINESS AT THE LEASE VERY WELL.

YESTERDAY WAS AN EDUCATION FOR ME PERSONALLY. I AM ENCOURAGED WITH WHAT APPEARS TO ME TO BE A WILLINGNESS ON THE PART OF MMS TO UNDERSTAND MORE FULLY THE CONCERNS OF THE BROAD PETROLEUM INDUSTRY WITH RESPECT TO MMS'S PROPOSED RULE MAKING. I ONLY HOPE THIS PERCEPTION IS CORRECT.

CONOCO IS HERE TODAY MAINLY FOR ONE PURPOSE ---- TO BEGIN QUALITY DIALOG WITH MMS REGARDING ~~CONOCO'S~~ COMPETITIVE BID PROGRAMS (TENDERING)

I WISH TO ENCOURAGE FURTHER DETAILED, OPEN & HONEST DIALOG WITH THOSE OF US IN INDUSTRY WHO ORIGINATE TENDERING PROGRAMS --- IN AN EFFORT FOR EACH SIDE OF THIS ISSUE TO UNDERSTAND EACH OTHERS CONCERNS ---- AND BEGIN A PATH FORWARD TO WORK OUT ACCEPTABLE SOLUTIONS THAT WILL ULTIMATELY ALLOW COMPETITIVE BIDDING TO ~~BECO~~ BECOME AN IDENTIFIED OPTION AVAILABLE TO ANY INDUSTRY MEMBER.

I BELIEVE THAT COMPETITIVE BIDDING CAN WORK FOR THE VAST MAJORITY OF THE INDUSTRY --- IF WE 1ST, UNDERSTAND THE BUSINESS, AND 2ND UNDERSTAND THE INNER WORKINGS OF COMPETIVE BIDDING IN CONSIDERABLE DETAIL.

AFTER YESTERDAY'S & ~~THE MEETINGS~~ DISCUSSIONS I AM EVEN MORE CONVINCED THAT THE CONCEPT OF COMPETITIVE

BIDDING CAN WORK AMAZINGLY WELL for BOTH the INDUSTRY AND the MMS. EVERY SINGLE ISSUE RAISED BY BOTH SIDES is EASILY ACCOUNTED for WHEN COMPETITIVELY BIDDING OIL FOR MAXIMUM Value @ the WELLHEAD

I DO NOT BELIEVE Either MMS or the INDUSTRY Can PASS JUDGEMENT ON the VALUE of COMPETITIVE BIDDING for PURPOSES of this RULE MAKING IN JUST A 15 MINUTE PRESENTATION WITH A ALLOWING Q & A SESSION.

WHAT IS NEEDED is A FOLLOW UP MEETING WITH MMS ON ONE HAND AND BUSINESS PROFESSIONALS ON the other HAND --- NOT SIMPLY ACCOUNTANTS, ATTORNEYS & LOBBYISTS .... LET ME BE CLEAR, COMPETITIVE BIDDING, AS A CONCEPT, HAS BEEN AROUND A LONG TIME --- PRACTICED BY MANY INDEPENDENT PRODUCERS (LARGE AND SMALL) AND NOW OPERATED BY SEVERAL LARGE INTEGRATED FIRMS

SPEAKING for CONOCO, OUR COMPETITIVE BID PROGRAM is IN FACT A SOPHISTICATED AND STRUCTURED PROCESS for the PURPOSES of DETERMINING MAXIMUM FAIR VALUE @ the WELLHEAD for ALL of OUR

PRODUCTION REGARDLESS of whether it is SOLD OUTRIGHT OR TAKEN DOWNSTREAM ---- As if we were AN INDEPENDENT PRODUCER.

FOR the SMALL PRODUCER, I WOULD NOT MAINTAIN THAT they NEED to PUT THE SOPHISTICATION we HAVE INTO COMPETITIVE BIDDING ---- IT REALLY IS A RATHER SIMPLE PROCESS AND CAN (if ALLOWED) BE TAYLORED to SPECIFIC COMPANIES THAT SHOW AN INTEREST.

THERE CAN EASILY BE ~~SET A~~ ESTABLISHED A CORE SET of SIMPLE RULES & REGULATIONS from which BOTH LESSEE AND MMS AND OTHER ROYALTY/SEVERANCE TAX INTERESTS ARE ASSURED THAT the METHODOLOGY USED WILL GENERATE IDENTICAL VALUE WHEN USED BY BOTH

- WITHOUT RETROACTIVE CLARIFICATIONS of "WHAT THE RULE MEANT
- WITHOUT PROTRACTED AUDIT
- WITHOUT PROSPECTIVE LITIGATION

CONOCO IS NOT HERE to ADVOCATE ITS OWN COMPETITIVE BID PROGRAM AS the END ALL --- ALTHOUGH we BELIEVE IT SATISFIES ALL the CONCERNS THAT BOTH SIDES ~~SUGGEST~~ HAVE AMPLY STATED.

CONOCO'S POSITION IS SIMPLE --- COMPETITIVE BIDDING IS ALIVE AND WELL TODAY --- UNLIKE MMS'S CONTENTION, IT HAS EXISTED FOR MANY YEARS. NO MATTER WHAT BECOMES OF THE FINAL RULE YOU PUBLISH --- IT MUST INCLUDE AN OPTION, AVAILABLE AT INDUSTRY'S OPTION, TO OPT FOR COMPETITIVE BIDDING WHERE IT MAKES SENSE TO DO SO --- HAVING AGREED AT THE OUTSET, WITH MMS, AS TO HOW IT WOULD OPERATE.

A LONG STANDING CONCERN OF CONOCO'S ~~IS~~ IS THAT MMS SEEMINGLY STEADFASTLY REFUSES TO ENTER INTO ANY QUALITY DIALOG REGARDING COMPETITIVE BIDDING. CONOCO HAS REPEATEDLY OFFERED TO OPEN OUR BOOKS --- SHOW YOU EVERY DETAIL --- OPENLY & HONESTLY AND WE DIDN'T GET THE CALL. WE HAVE BEEN FRUSTRATED & PERPLEXED THAT UNTIL TODAY MMS HAS REFUSED TO ENTERTAIN OUR OFFER. I ONLY HOPE YOU WILL AFTER TODAY

MANY PEOPLE HERE HAVE MAINTAINED THAT RESOURCES ARE AN OBSTACLE THAT GET IN THE WAY OF REAL DIALOG REGARDING THE VALUATION OF ROYALTY. I PERSONALLY GUARANTEE THAT CONOCO CAN AND WILL DROP ALL TOOLS TO PROACTIVELY ENGAGE IN REAL DIALOG WITH MMS --- WITH

Real Professional Crude Oil ~~Traders~~ Marketers. All you have to do is sit aside a day or two and we can constructively forge a win/win for industry & the DOI. I would invite any other member of the industry to do the same with us.

A FEW BRIEF POINTS THAT I HOPE WILL CAPTURE YOUR INTEREST

(1) ✓ Every point - - - Counter point - - - and other issues enumerated yesterday ~~and today~~ vanishes with a well thought out competitive bid program.

(2) ✓ Auditing resources become dramatically reduced
- ✓ Send an auditor to every one of our bid openings - - - inspect the results and then monthly compare @ home what you get with what you are supposed to get.
- ✓ No longer will we need 6 auditors in Conoco's offices 365 days a year.

(3) ✓ Under competitive bidding the market place determines value at the wellhead - - - not the producer - - - not the government.

(4) ✓ Competitive ~~Bid~~ bidding captures arm's length value at the wellhead

(5) ✓ It achieves, unquestionably the criteria set forth by MMS early on and recently by Secretary Babbitt
- ✓ Its simple
- ✓ Its efficient
- ✓ Its adaptable to market conditions
- ✓ There is certainty for lessee and lessor
- ✓ It accurately reflects today's crude oil markets

(6) ✓ And competitive bidding stands the test of time as

MARKETS CHANGE.

~~MMS~~

(7) ✓ MMS SEEMS to DISTRUST POSTED PRICES AT the WELLHEAD AS REPRESENTATIVE of MARKET VALUE

- YOU WOULD HAVE the PUBLIC & CONGRESS BELIEVE THE GOV'T IS RECEIVING ONLY POSTED PRICE FROM CONOCO
- ACTUALLY the GOV'T IS RECEIVING VALUE WELL IN EXCESS of POSTED PRICES --- AND HAS BEEN FOR SOME TIME NOW from COMPANIES LIKE CONOCO
- OUR SOLUTION (COMPETITIVE BIDDING) WOULD AT LEAST BE REVENUE NEUTRAL COMPARED to MMS PROPOSED RULE.

(8) ✓ CRUDE OIL MARKETS DO CHANGE --- SOMETIMES ON A MOMENTS NOTICE --- SUPPLY/DEMAND DYNAMICS DO EXIST IN TRADE CENTERS --- BUT there ARE ALSO VERY LOCALIZED SUPPLY & DEMAND DYNAMICS THAT CAN EXIST for DISTINCT LEASES ---- SELDOM ARE they the SAME.

(9) ✓ ALL DOWNSTREAM of the LEASE ISSUES BECOME A MUTE POINT if A COMPANY ENGAGES COMPETITIVE BIDDING

(10) ✓ MR SHAUMBERG'S CONCERNS ABOUT NOT BEING EQUIPPED to MANAGE & RULE ON OIL VALUATION ISSUES WITHOUT ADDITIONAL RESOURCES & BUDGET BECOME A NON-ISSUE

(11) ✓ HIS CONCERN for the ONSLAUGHT of REQUESTS for INTERPRETATION BECOME A NON-ISSUE.

CONOCO HAS A LOT MORE to offer these PROCEEDINGS REGARDING OUR SPECIFIC COMPETITIVE BID PROGRAM INCLUDING EXAMPLES of ACTUAL RESULTS

AMPAD 22-141 50 SHEETS 22-142 100 SHEETS 22-144 200 SHEETS

80/8

50

What is Conoco's Solution?

Conoco's Competitive Bid Program Principles:

- **Conoco now bids out 100% of our controlled production, including all royalty oil to third parties.**
  - ➡ Began bidding out crude in April 1997 (two years ago).
  - ➡ Bids routinely sent to approximately 25 companies.
    - ✓ Bids sent to both large and small companies, including resellers.
    - ✓ Others are added if they ask and qualify
    - ✓ ~~Bidders may prequalify~~
    - ✓ Conoco has not rejected a bidder to date.

- **Our intent is to sell a minimum of 10% but may chose to sell 100%.**
  - ➡ Actual volume sold is immaterial to bid value determination.
  - ➡ Typical sales volume has been approximately 20 to 50% (10,000 to 25,000 BPD)

- **Conoco does NOT have the right to bid on the oil.**
  - ➡ Consequently only third party bids are used to determine wellhead value for Conoco's production.

- **Bids are used in descending order until 100% of volume has been valued.**

- **Conoco's downstream business has a right to MATCH the competitive arm's length bid prices on 90% of the volume.**

- **Conoco reviews the program at least annually to ensure it is achieving the intent of revealing market value at the wellhead and to make appropriate changes due to continuing market changes.**

* In contrast to MM's proposal, competitive bidding could be audited, simply by witnessing each bid opening

Invitis Question?

Might add here that we operate a rather sophisticated & structured & thoroughly documented CBP. . . . But "competitive bidding" has been employed by many independent producers for years unlike MMS assertion that tendering does not represent

*

Thank you for allowing these workshops & I only hope we can now begin the process of quality dialog

NOTES: (1) BID "PREMIUM" OR "DEDUCT" REMAINS FIXED FOR PERIOD of CONTRACT --- POSTED PRICE IS ADJUSTED ALMOST DAILY AS MARKET MOVES UP or DOWN.
✓ SUPER EASY to AUDIT

(2) Different BUYERS HAVE Different VALUES for the SAME KIND

(3) CLEARLY, THERE IS NOT ONE NUMBER THAT REPRESENTS VALUE @ WELLHEAD

(4) CHANGE IN MARKET CONDITIONS from ONE PERIOD TO the NEXT ~~DEMONSTRATES~~ OR IN BUYER VALUES DEMONSTRATES LOCAL SUPPLY & DEMAND CONTEMPORANEOUSLY --- INDEXING DOES NOT.

(5) COMPETITIVE BIDDING STANDS TEST of TIME

(6) ENHANCING COMPETITIVE BIDDING AS INDEPENDENT PRODUCER WOULD --- EVEN if MOST OIL & ULTIMATELY TAKEN DOWNSTR.

Some Actual Conoco Results:

Example #1:

Actual Bid Range Conoco's Bid Program Main Pass - Offshore
Bids prices shown are premium over a Posted Price (not Conoco's Posting) Volume offered for sale: 2,600 BPD.

	Bid Premium
Company A	$2.35
Company B	$2.30
Company C	$2.20
Company D	$2.20
Company E	$2.16
Company F	$2.13
Company G	$2.10
Company H	$2.02
Company I	$1.70
Company J	$1.45

Range of $0.90 per barrel in bids. 100% of production was valued at reference posting PLUS $2.35 per barrel because the high bidder bid for 100% of the offered crude. Conoco's program uses volume weighting to value 100% of crude bid out.

(7) ALL ROYALTY OWNERS ARE RECEIVING WELL IN EXCESS of POSTED PRICES --- PRICES SET BY the MARKET PLACE.

Example #2:

Actual Bid Range Conoco's Bid Program Green Canyon - Offshore

Bids prices shown are premium over a Posted Price (not Conoco's Posting). Volume offered for sale 2,100 BPD.

Company A	$3.01
Company B	$2.31
Company C	$2.63
Company D	$2.40
Company E	$1.93
Company F	$1.88
Company G	$1.70
Company H	$1.43

In this case the range of bid premiums were from a high of $3.01/bbl. to a low of $1.43/bbl. representing a range of $1.58/bbl. 100% of the production was valued at Koch's posted price PLUS $3.01/bbl. because the high bidder bid for 100% of the offered crude. Again, Conoco's program uses volume weighting to value 100% of crude bid out.

Why is Competitive Bidding better than Index?

NOTES: ① THERE IS A SEPERATE MARKET @ WELLHEAD - - - DIFF. FROM TRADE CENTER
- SUPPLY SIDE (LARGE AND SMALL, INTEGRATED AND NON-INTEGRATED PRODUCERS)
- DEMAND SIDE (LARGE & SMALL REFINERS + GREAT MANY INDEPENDENT MARKETERS & BROKERS
② ACTUAL TRANSACTIONS @ WELLHEAD REVEAL:
- VALUES VARY GREATLY
- S/D FACTORS ARE SPECIFIC TO INDIVIDUAL LOCATIONS, LEASES AND TRANSACTIONS
③ SUSTAINED EXISTENCE OF 100+ INDEPENDENT MARKETERS WHO ADD VALUE DOWNSTREAM.

Index Methodology

Trade Center

THIS IS ONE MARKET

?

Starting Point

?

Lessee may Deduct "Actual" Transportation Cost ONLY between Lease and Aggregation Point

Aggregation Point

Federal Lease

EACH LEASE IS QUITE ANOTHER MARKET WITH UNIQUE S/D DYNAMICS

Nets an "Index" price that is flawed!

Lease Supply & Demand Impact Ignored by the Index Method!

Competitive Bid Method

Trade Center

The value of the Bids under a Competitive Bid program is determined by the bidders who assess value at the lease. Effect is a TRUE lease value!

Federal Lease

Value begins and ends at lease st

Aggregation Point

Lease Supply & Demand Impact is a Primary feature of Competitive Bid programs!

ALL OF THESE FACTORS ARE CONSIDERED AS BIDDERS PREPARE THEIR BID

BECAUSE IT IGNORES THE BASICS OF LOCAL SUPPLY & DEMAND FACTORS THAT REALLY ESTABLISH WELLHEAD VALUE
- SOME TANGIBLE COSTS
- SOME INTANGIBLE BUT REAL "FACTORS"

Valuation concerns facing the Lessee using Index:

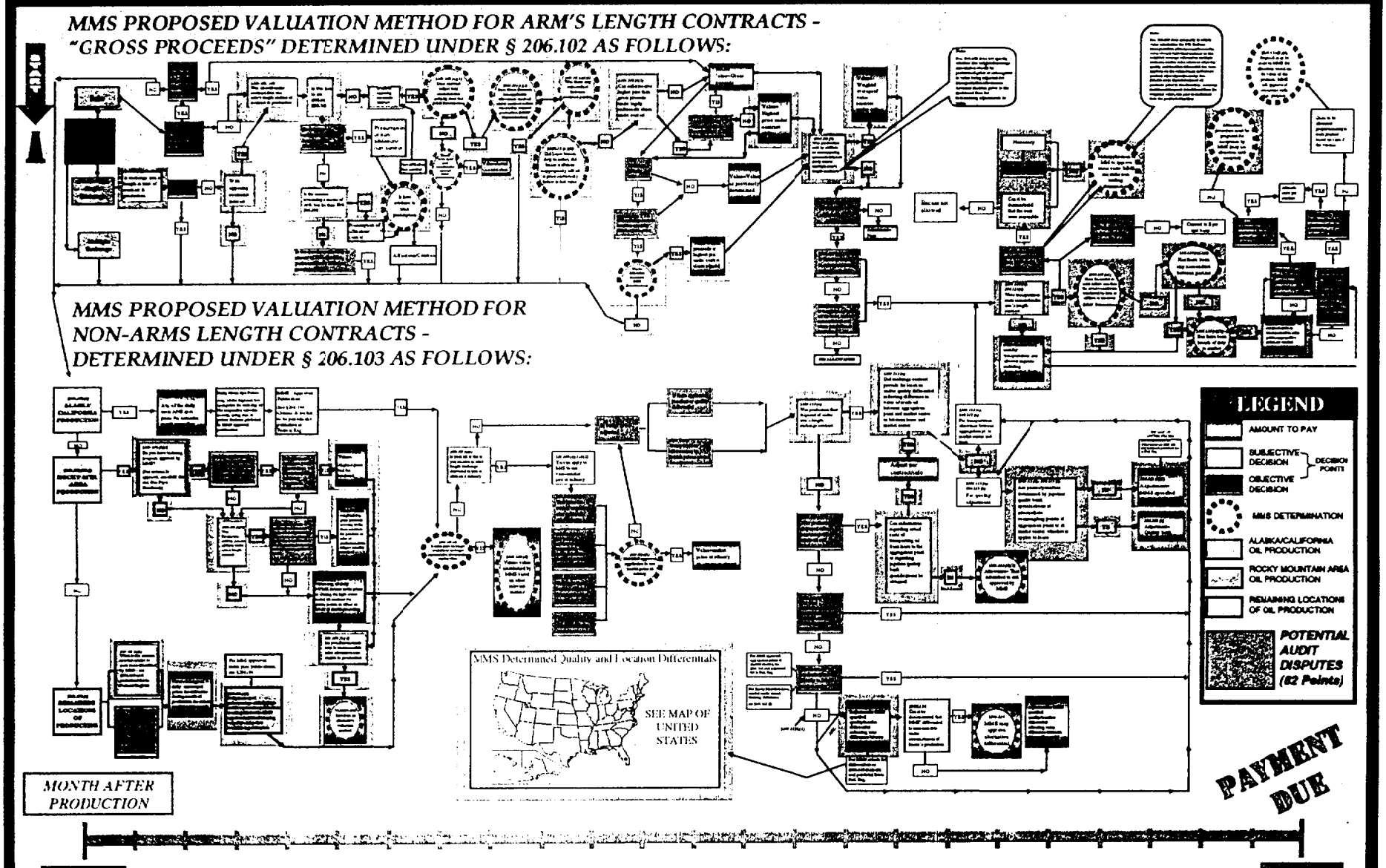
? Which lease is being valued
? Which aggregation point
? Large producing lease
? Small producing lease
? What is trucked
? What is pipeline connected
? Who owns the pipeline
? What if buyer does not want crude at aggregation point
? Is production used for refinery or blending
? Access to roads (good or bad)
? Which refinery determines value

SEGREGATED P/L when QUALITY is PRESERVED ?
or
COMMON STREAM when QUALITY is CHANGED ?

MMS Third Supplementary Notice of Proposed Rulemaking

COMPREHENSIVE DIAGRAM OF MMS' "SIMPLE" AND "CERTAIN" PROPOSED OIL VALUATION RULE

Payment Due in 30 Days - Subject to Audit Years Later

Establishing Oil Value for Royalty Due on Federal Leases

63 FED REG. 38355
JULY 16, 1998