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February 21, 2022

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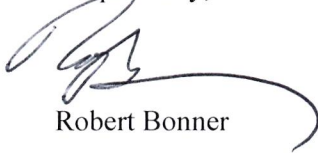
**RE: Affidavit of ConocoPhillips Company (COP) - Project No. 52955  
REP Certificate No. 10037**

As an Option 1 REP,<sup>1</sup> COP is required to submit an Annual Report pursuant to P.U.C. SUBST. R. §25.107(i)(5). COP has completed and submitted the online portion of the Annual Report form via the PUC portal.

Enclosed is a copy of COP's credit report from S&P Global RatingsDirect evidencing our investment-grade credit rating along with an affidavit attesting to the accuracy of the information provided as specified in S.R. §25.107(i)(5)(A)(7).

If you have any questions, please do not hesitate to contact me at 281.293.4872.

Respectfully,



Robert Bonner

Enclosure

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<sup>1</sup> *Application of ConocoPhillips Company to Amend to Its Retail Electric Provider Certification*, Docket No. 39272, Order No. 2 Granting Administrative Approval (Apr. 12, 2011).

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**AFFIDAVIT**

STATE OF TEXAS           §  
  §  
COUNTY OF HARRIS       §

1. My name is Terri Clynes, I am Manager, US Power Marketing & Trading of the reporting REP, ConocoPhillips Company (COP). I am over the age of eighteen and a resident of the state of Texas. I am competent to testify to the facts stated in this Affidavit, and I have the authority to make this Affidavit on behalf of COP.

2. I swear or affirm that I have personal knowledge of the facts stated in this Annual Report (Report) covering financial qualifications per § 25.107(i)(5)(A)(vii), and that COP retains an investment-grade credit rating to meet such qualifications in compliance with § 25.107(f)(1)(A)(i). I further swear or affirm that all statements and/or representations made in this Report are true, complete, and correct.

3. I swear or affirm that COP is compliant with § 25.107(i)(5)(A)(iv) and not in material violation of any of the requirements of its certificate.

4. I swear or affirm that any assertions of confidentiality regarding this response have been made with a good faith belief that an exception to public disclosure under Chapter 552 of the Texas Government Code applies to the information provided.

Terri Clynes  
Signature of Affiant/Responsible Party

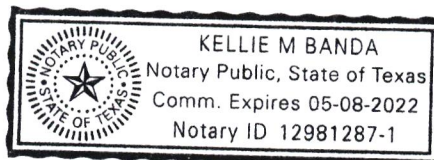
Terri Clynes

ConocoPhillips Company

SWORN TO AND SUBSCRIBED before me on the 21 day of February 2022

Kellie M Banda  
Notary Public In and For the  
State of: TEXAS

My commission expires: 05/08/2022



Research Update:

# ConocoPhillips Ratings Affirmed On All-Cash Acquisition Of Permian Assets From Royal Dutch Shell, Outlook Stable

September 22, 2021

## Rating Action Overview

- Houston-based oil and gas exploration and production (E&P) company ConocoPhillips has announced a \$9.5 billion all-cash acquisition of producing Permian assets from Royal Dutch Shell.
- Despite the leveraging transaction, we believe the company's credit ratios and liquidity remain appropriate for the current rating.
- We affirmed our 'A-/A-2' issuer credit rating on ConocoPhillips, our 'A-' issue-level rating on its unsecured debt, and our 'A-2' short-term rating on its commercial paper (CP) program.
- The stable outlook reflects our expectation that the company will maintain funds from operations (FFO) to debt of about 50% or higher over the next two years if it realizes the targeted operational and commercial synergies from the acquired properties and executes its planned asset sales.

### PRIMARY CREDIT ANALYST

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## Rating Action Rationale

**Although weaker than our previous estimates, ConocoPhillips' credit measures remain adequate for the current rating given its business risk profile.** The company intends to fund the \$9.5 billion acquisition of Shell's Permian assets with cash on hand. Although this will initially increase its leverage, we expect the assets to generate at least \$1.0 billion of free operating cash flow (FOCF) for ConocoPhillips next year (based on our current price deck assumptions). Therefore, we now expect its FFO to debt to average about 50% in 2022 and 2023, which is down from about 60% previously. Nevertheless, we believe the acquisition will modestly strengthen ConocoPhillips' business risk profile by increasing its scale in the low-cost Permian Basin.

**There is some upside to our cash flow estimates related to potential synergies and asset sales.**

The company noted that it expects to achieve operational and commercial synergies from the Permian assets once it closes the acquisition, although they will be on a much smaller scale than the nearly \$1.0 billion of synergies it achieved from its Concho Resources acquisition in January. ConocoPhillips also raised its asset sale target and now expects to realize \$4 billion-\$5 billion of proceeds by the end of 2023, which is up from \$2 billion-\$3 billion previously, with the incremental dispositions likely to come from upgrading its Permian asset portfolio. We have not incorporated any cost synergies or asset sales in our cash flow estimates.

**The acquisition will increase the company's scale in the prolific Permian Basin.** The Shell assets include 225,000 net acres in the Texas Delaware Basin and ConocoPhillips estimates they will provide production of about 200,000 barrels of oil equivalent per day (boe/d) in 2022 (50% oil, 25% natural gas liquids [NGLs], and 25% natural gas). The company will operate about 50% of this production. Therefore, we estimate the Permian basin will account for about 35% of ConocoPhillips' 2022 production (including equity affiliates), with the total Lower 48 unconventional (including the Eagle Ford and Bakken) comprising about 55%. Management expects to spend \$700 million on the Shell assets in 2022 increasing its expenditure to an annual run rate of more than \$1.0 billion over the next 10 years. The Permian basin is one of the lowest supply cost regions in the U.S., thus we anticipate the additional assets will likely improve ConocoPhillips' profitability. As an added bonus, the assets feature lower greenhouse gas (GHG) emissions intensity than the company's overall portfolio. Consequently, ConocoPhillips has increased its 2030 emission reduction target to a 40%-50% improvement relative to 2016 levels from 35%-45% previously.

**Although its liquidity has weakened, we expect the company to rebuild its cash balance with free cash flow and the proceeds from potential asset sales.** As of the end of June, ConocoPhillips had nearly \$6.6 billion of unrestricted cash and \$2.2 billion of short-term investments, in addition to \$5.7 billion of availability under its \$6.0 billion credit facility maturing in 2023 (unrated). The company also had nearly \$1.8 billion of Cenovus Energy Inc. shares, which it plans to monetize by the end of 2022. Although the \$9.5 billion acquisition price will initially reduce its liquidity, we expect ConocoPhillips' strong FOCF generation over the next 12-18 months--along with an estimated purchase price adjustment of \$600 million-\$800 million and potential asset sales of up to \$5.0 billion through the end of 2023--to improve its liquidity in 2022 despite its distribution of a portion of discretionary cash flow to shareholders. The company continues to target distributing 30% of its cash flow from operations to its shareholders.

## Outlook

The stable outlook reflects our view that ConocoPhillips' credit measures will continue to strengthen in 2022 assuming the Shell acquisition closes by year-end 2021. We expect the company's FFO to debt to be in the low 50% area next year, up from 25% in 2020, before modestly declining in 2023 as commodity prices decrease in line with our price deck assumptions. We also forecast ConocoPhillips will generate substantial FOCF, a portion of which it will likely return to its shareholders via dividends and share repurchases.

## Downside scenario

We could lower our rating on ConocoPhillips if we expect its FFO to debt to approach 45% and its

debt to EBITDA to approach 2x for a sustained period. This would most likely occur if the company does not execute its planned asset sales or increases its capital spending or shareholder distributions beyond our current expectations.

## Upside scenario

We could raise our rating on ConocoPhillips if it increases its asset base or expands its proved reserves and production to levels that are more in line with those of its higher-rated peers while raising its FFO to debt comfortably above 60% and improving its debt to EBITDA well below 1.5x.

## Company Description

ConocoPhillips is a global independent E&P company with operations in the U.S., Norway, the U.K., Canada, Australia, Indonesia, China, Malaysia, Qatar, and Libya. Following the Concho Resources acquisition in January 2021 and pro forma for the Shell asset acquisition in late 2021, the company's production base is very large relative to those of its independent E&P peers, with combined volumes of over 1.7 million boe/d (58% oil) and proved reserves of over 6.0 billion boe as of Dec. 31, 2020 (about 62% of which are oil and NGLs and about 70% are proved developed). The company also conducts marketing activities and buys and resells commodities to and from third parties. ConocoPhillips is a public company, and 75% of its shares are held by institutions.

## Our Base-Case Scenario

- S&P Global Ratings' price deck assumptions for West Texas Intermediate (WTI) crude oil of \$60 per barrel (bbl) for the remainder of 2021, \$55/bbl for 2022, and \$50/bbl thereafter;
- S&P Global Ratings' price deck assumptions for Brent crude oil of \$65/bbl for the remainder of 2021, \$60/bbl for 2022, and \$55/bbl thereafter;
- S&P Global Ratings' price deck assumptions for Henry Hub natural gas of \$3.50 per million Btus (mmBtu) for the remainder of 2021, \$3.00/mmBtu for 2022, and \$2.50/mmBtu thereafter;
- The company has no hedges in place;
- Annual production increases by 35%-40% to 1.5 million boe/d in 2021 due to the Concho acquisition (closed in January 2021) and the resumption of shut-in volumes. Production rises by another 10%-15% in 2022 due to the Shell asset acquisition, which we assume closes in the fourth quarter of 2021;
- Capital spending of \$5.3 billion in 2021, increasing to \$7.6 billion next year;
- Dividends of close to \$2.4 billion and share repurchases of over \$2.5 billion in 2021. Beyond 2021, we assume annual dividends of \$2.5 billion and share repurchases of \$1.5 billion; and
- We do not incorporate any potential synergies or asset sales in our estimates.

Based on these assumptions, we estimate the following credit measures:

- FFO to debt of 50%-55% in 2022, decreasing to 45%-50% in 2023;
- Debt to EBITDA of 1.6x in 2022, increasing to about 1.8x in 2023; and
- Positive discretionary cash flow (after dividends and share repurchases) of over \$2.2 billion in 2022 and essentially neutral in 2023.

## Liquidity

We have revised our assessment of ConocoPhillips' liquidity to adequate from strong to reflect its use of cash for the Shell acquisition. We expect the company's liquidity sources to be about 1.3x its uses over the next 12 months and estimate that its net sources of liquidity will remain positive even if its EBITDA declines by 15%.

Principal liquidity sources:

- Cash and short-term investments totaling \$8.8 billion as of June 30, 2021;
- Nearly full borrowing capacity under the company's \$6 billion committed and undrawn credit facility maturing in May 2023 (net of \$300 million in outstanding CP);
- Estimated FFO of \$11 billion over the next 12 months and over \$12 billion the following year; and
- Although not included in our liquidity assessment, as of June 30, 2021, ConocoPhillips held \$1.8 billion of Cenovus Energy shares, which it plans to monetize by the end of 2022.

Principal liquidity uses:

- Capital expenditure of \$5.3 billion in 2021 and \$7.6 billion in 2022;
- Shell acquisition funding of between \$8.5 billion and \$9.0 billion after purchase price adjustments;
- Common dividends of about \$2.5 billion per year;
- Share repurchases of \$2.5 billion in 2021 and \$1.5 billion per year thereafter; and
- Debt maturities of \$123 million in 2021 and \$829 million in 2022.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

- As of June 30, 2021, ConocoPhillips' capital structure comprised a total of about \$11.6 billion of senior unsecured notes at ConocoPhillips and ConocoPhillips Co. that have cross guarantees, an undrawn \$6 billion unsecured credit facility maturing in 2023 at ConocoPhillips that serves as backstop for its CP program (\$300 million outstanding), and outstanding debt at other subsidiaries totaling about \$7.2 billion.

### Analytical conclusions

- Based on its existing debt structure, we rate the company's senior unsecured notes 'A-', which is in line with our long-term issuer credit rating.
- We rate ConocoPhillips' CP 'A-2', which is based on our 'A-' long-term issuer credit rating and our adequate assessment of its liquidity.



## Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/A-2

Business risk: Strong

- Country risk: Low
- Industry risk: Moderately High
- Competitive position: Excellent

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: a-

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### ConocoPhillips

##### ConocoPhillips Co.

Issuer Credit Rating	A-/Stable/A-2
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#### ConocoPhillips

Senior Unsecured	A-
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#### Burlington Resources Finance Co.

Senior Unsecured	A-
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#### Burlington Resources Inc.

Senior Unsecured	A-
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#### Concho Resources Inc.

Senior Unsecured	A-
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#### ConocoPhillips Canada Funding Co. II

Senior Unsecured	A-
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#### ConocoPhillips Co.

Senior Secured	A-
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Equipment Trust Certificates	A-
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Senior Unsecured	A-
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Commercial Paper	A-2
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#### ConocoPhillips Funding Co.

Senior Unsecured	A-
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#### Louisiana Land & Exploration Co.

Senior Unsecured	A-
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#### Polar Tankers Inc.

Senior Unsecured	A-
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#### Tosco Corp.

Senior Unsecured	A-
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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