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Exxon Facing Questions about Natural Gas Push

By DAVID KOENIG and CHRIS KAHN, AP Business Writers

DALLAS – Exxon Mobil Corp.'s big push into natural gas is threatened by opposition to drilling techniques that have unlocked buried reserves. Now the oil giant is trying to change public opinion about how it gets the gas.

CEO Rex Tillerson said Wednesday that the company is running advertisements, conducting town hall meetings and talking to regulators to convince Americans that drilling using a method known as "fracking" is safe. Exxon is also paying for polling, but Tillerson said it's too soon to know whether its campaign is working.

Exxon Mobil placed a bet on gas by paying $29 billion for XTO Energy last year. That made Exxon the largest natural gas company in the U.S. It now owns more gas than crude oil.

So far, however, the deal hasn't paid off. Natural gas prices are around $4.42 per 1,000 cubic feet. That's slightly below the price when the XTO purchase closed and well below levels seen three years ago. That's one reason, analysts say, Exxon's stock has lagged behind those of rivals Chevron and ConocoPhillips.

At Exxon Mobil's annual shareholder meeting Wednesday in Dallas' ornate symphony hall, Tillerson boasted about the company's success — it rode higher oil prices to a $30.5 billion profit last year — and defended the new emphasis on natural gas.

Exxon predicts that natural gas will be the fastest-growing energy source, overtaking coal and ranking second only to oil in total use by 2020.

Much of that gas will be produced through "unconventional" methods, including hydraulic fracturing or fracking — the pumping of tons of water and chemicals into the ground to break open rock formations and extract the gas. The practice has attracted fierce opposition from landowners, environmentalists and government officials who say it poses the threat of contaminating underground water supplies.

About 28 percent of Exxon shares were voted for a resolution that called for the company to disclose more information about fracking. At Chevron Corp., which has boosted its own natural gas business in the past year, 41 percent of shares were cast for a similar resolution at its annual meeting Wednesday.

Michael Passoff of As You Sow, a San Francisco group that lobbies companies to adopt environmental policies, said the votes showed that mainstream investors are concerned about fracking and its financial risks for companies.

Tillerson said drilling for gas in shale deposits does carry risks. But, he said, fracking technology has been around for decades — it's just being used more widely today — and can be done safely.

"The early detractors slap a label on something and then it takes us a long time to get that label peeled off," he said. "And you guys" — referring to the media — "help them slap it on."

Some recent polls have shown significant public concern about fracking in states where it's being done, including New York and Pennsylvania. A Marist College poll showed New Yorkers evenly split between support and opposition for fracking. Regulators have stepped up monitoring of the drilling. Penalties have included a record fine recently against another energy company in Pennsylvania.

Tillerson said if the oil and gas industry can't allay fears about fracking, more places will be off-limits to drilling.

A few shareholders said Exxon should do more to disclose known and potential environmental risks from fracking. Tracey Rembert of Ceres, a group of investors and environmentalists, called on the company to fully disclose the chemicals used in the process. Exxon Mobil and other energy companies post information on an industry website but decline to identify some of the compounds, calling them proprietary.

On pocketbook issues, two shareholders pressed Tillerson to raise the company's dividend. Exxon's quarterly dividend is 47 cents per share, yielding 2.3 percent, compared with 78 cents per share and a yield of 3 percent at Chevron. Tillerson said the company has raised the dividend 53 percent since 2006 but doesn't want to go faster, needing to balance bigger dividends against capital-spending needs.

Exxon shares rose just 7 percent last year compared with a 19 percent gain at Chevron and 33 percent at ConocoPhillips. They've been more competitive so far this year. Still, only four of 17 analysts surveyed by FactSet have a "Buy" rating for Exxon.

Benchmark Co. analyst Mark Gilman said Exxon's share price — it closed Wednesday at $81.96 — isn't justified by future growth potential.

Argus Research analyst Phil Weiss said Exxon has lots of cash, little debt and a tradition of efficient operations. He has a "Buy" rating on the stock, but he's concerned about the short-term effects of the XTO deal, which could be an even bigger handicap if natural gas prices remain low.

"In the current environment, that's a big disadvantage," he said.

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