

Hydraulic Fracturing – Quantitative Reporting

Exxon Mobil

Annual Meeting: May 27, 2015, Dallas, TX

Resolution

This Proposal asks “the Board of Directors to report to shareholders, by December 31, 2015, and annually thereafter, the results of company policies and practices, above and beyond regulatory requirements, to minimize the adverse environmental and community impacts from the company’s hydraulic fracturing operations associated with shale formations.”

Rationale for a Yes Vote

Horizontal drilling and hydraulic fracturing operations have the potential to create significant environmental and social impacts – from air pollution and water quality harm, to extensive community disruption, to greenhouse gas emissions, and even earthquakes -- resulting in increased risk to the company and shareowners from community opposition, regulatory scrutiny, and potential legal liability.

This Proposal reflects rising public expectations for *quantifiable* disclosure from companies undertaking hydraulic fracturing activities. Shareholder proposals requesting such enhanced reporting have earned support from 28% - 40% of shareholders, indicating sustained concern from shareholders about the inadequacy of existing company risk management disclosures.

As public expectations for company disclosure and transparency rise, investment value may be undermined by company environmental policies and practices that lag public and regulatory expectations. In order to measure the effectiveness of company policies and practices intended to mitigate environmental and community impacts, investors need: rigorous disclosure of steps to minimize risk, reporting on key indicators of success, and clearly defined steps undertaken by the company to continually improve operations. Currently, Exxon is not providing the data necessary for investors to verify whether the company’s policies and practices effectively manage impacts and risks.

Filers

Lead filers of this proposal are As You Sow (on behalf of the Park Foundation).

BACKGROUND ON GROWING CONCERNS REGARDING HYDRAULIC FRACTURING OPERATIONS

As natural gas production has expanded in the United States, controversies associated with the hydraulic fracturing process have grown. In the rush to drill for natural gas, incidents have occurred of poorly constructed wells, equipment failures, degraded local and regional air quality, water contamination, private lawsuits, strained community relations, and related government enforcement actions. As a result of the many impacts communities have experienced, the industry has faced public backlash, including costly bans and moratoria. Companies that fail to transparently mitigate the significant environmental and community impacts of their operations face significant business risks including enforcement actions and loss of their social license to operate.

Rising Expectations for Quantitative Disclosure

Prominent regulatory bodies are echoing investor calls for increased transparency and disclosure of company policies and progress toward achieving best practices. The International Energy Agency, the Department of the Interior, and an array of states are pressing for increased disclosure requirements regarding hydraulic fracturing operations. In particular, and as noted in proponents' resolution, the Department of Energy secretary's shale advisory panel recommended in 2011 that companies "adopt a more visible commitment to using quantitative measures as a means of achieving best practice and demonstrating to the public that there is continuous improvement in reducing the environmental impact of shale gas production."¹ (emphasis in original).

HYDRAULIC FRACTURING OPERATIONS RESULT IN SIGNIFICANT ENVIRONMENTAL AND SOCIAL IMPACTS

Hydraulic fracturing operations typically use millions of gallons of water and thousands of gallons of chemicals, generating large volumes of wastewater, and releasing polluting air emissions, including greenhouse gas emissions. These industrial operations can also be socially disruptive -- often damaging roads, creating extensive traffic congestion, increasing burdens on emergency services, and even increasing rates of crime,² among other issues. These impacts can lead to strained community relations, bans and moratoria, and can have financial implications for companies when not appropriately addressed.

A. WATER-RELATED IMPACTS

Much of the controversy surrounding hydraulic fracturing has centered on water use and wastewater management. The high volumes of water and chemicals used during the hydraulic fracturing and extraction process has prompted concerns about potential water contamination and shortages, and has increased tension within communities concerned about finite water resources. These concerns have prompted calls for increased chemical disclosure, restrictions on companies' access to water, and better water management practices. The high volumes of water used during hydraulic fracturing also pose substantial operational, and thus business, risks to companies as drought increases in many areas across the country.

¹ U.S. Department of Energy Secretary of Energy Advisory Board, "Shale Gas Production Subcommittee Second Ninety Day Report," November 18, 2011, page 9, http://www.shalegas.energy.gov/resources/111811_final_report.pdf; See also International Energy Agency, "golden rules for a Golden Age of Gas" (2012), http://www.iea.org/publications/freepublications/publication/WEO2012_GoldenRulesReport.pdf. APG, a \$450 billion Dutch pension fund (serving 4.5 million pensioners) noted in 2012 that it had decided not to invest in a U.S. company using hydraulic fracturing because of the company's "lack of transparency. . .and concerns about the social and environmental practices of the relevant manager." APG "requested more quantitative reporting on performance indicators and the application of best practice standards," see "Investing in Sustainability, May 2012," p.8, http://www.apg.nl/apgsite/pages/images/investing-in-sustainability-2012-1_tcm124_147592.PDF.

¹ Joel Berger and Jon Beckmann, "Sexual Predators, Energy Development, and Conservation in Greater Yellowstone," *Journal of Conservation Biology*, 24, no. 3 (June 2010):301-306, <http://onlinelibrary.wiley.com/doi/10.1111/j.1523-1739.2010.01449.x/abstract>.

² Joel Berger and Jon Beckmann, "Sexual Predators, Energy Development, and Conservation in Greater Yellowstone," *Journal of Conservation Biology*, 24, no. 3 (June 2010):301-306, <http://onlinelibrary.wiley.com/doi/10.1111/j.1523-1739.2010.01449.x/abstract>.

B. WASTE DISPOSAL

As public concern over the chemical content and water contamination risks of hydraulic fracturing fluid increases, companies are finding it increasingly difficult and expensive to ensure safe disposal of drilling residuals and flowback waters. As stricter standards are imposed, companies are increasingly opting to treat waste water themselves or send it to deepwater injection sites. Deepwater injection, however, is being scrutinized as the source of a series of earthquakes that are impacting communities and structures.

C. AIR IMPACTS

The contribution of natural gas extraction to declining or harmful regional and local air quality has prompted increasing concerns among local residents, including residents whose health has been negatively impacted by nearby operations, increasing the likelihood of tightened oversight and regulation of the industry. Emissions from hydraulic fracturing operations have also been linked to increased ozone and methane levels, further tarnishing natural gas's reputation as the more 'climate-friendly' alternative.

D. COMMUNITY IMPACTS

The influx of industrial activity associated with hydraulic fracturing operations exposes host communities to increased health risks, water degradation and competition, crime, noise and light pollution, truck traffic, and increased burdens on emergency services, among others. A significant body of literature points to negative impacts on the surrounding community:³ Companies that fail to comprehensively address and mitigate the impacts of their hydraulic fracturing operations on the surrounding community risk losing their social license to operate.

PUBLIC EXPECTATIONS ARE GROWING REGARDING COMPANY DISCLOSURE AND ENVIRONMENTAL PROTECTION MEASURES; CONTINUED BANS AND MORATORIA.

A central concern for communities across the country is a desire to have a better understanding of the practices taking place, sometimes literally, in their back yards. As a result of public concern about the environmental and health harms associated with hydraulic fracturing, governments -- from local towns to nation states -- have enacted bans and moratoria on hydraulic fracturing operations. Most prominently, the State of New York recently prohibited hydraulic fracturing across the state after conducting an exhaustive review of evidence and finding that the risks of fracking outweighed the economic benefits to the state.⁴

Such actions represent denial of companies' "social license to operate" and can result in negative impacts to a company's bottom line as revenues or potential revenues are lost. Exxon has experienced such loss of potential; Exxon is the largest producer of natural gas in Germany, which has maintained a moratorium on fracking despite intense industry lobbying from Exxon and others. Additional moratoria were adopted in the United States this year, including in Denton, Texas, where Exxon's XTO unit honed its shale expertise.

³ Grassroots Environmental Education, "Summary Report: Human Health Risks and Exposure Pathways of Proposed Horizontal Hydrofracking in New York State," (Presented in a meeting with officials from the NYSDEP and the NYS DOH on October 9, 2012), <http://chej.org/wp-content/uploads/Summary-Report-Hydrofracking-In-New-York-State.pdf>.

⁴ "New York Moves to Ban Fracking," The Wall Street Journal, Dec. 18, 2014, <http://www.wsj.com/articles/new-york-gov-andrew-cuomos-administration-moves-to-ban-fracking-1418839033>.



Community concerns about natural gas extraction operations near their homes was only underscored when Exxon’s Chief Executive Officer joined a lawsuit alleging that water hauling associated with hydraulic fracturing activities has the potential to increase noise and traffic, and decrease property values.⁵

As community wariness of and opposition to hydraulic fracturing operations increase, there is growing recognition that companies must become more publicly transparent about managing their environmental footprint and social impacts and that they must engage with key stakeholders to earn and maintain their social license to operate. The public is no longer willing to simply trust large companies like Exxon when they assure communities that they have optimal practices in place. Further, as public expectations for company disclosure and transparency rise, investment value may be undermined by company environmental policies and practices that lag public and regulatory expectations. Investors need specific, detailed assurances that companies are transparently and proactively managing the impacts of their operations. Such transparency requires full disclosure of steps being taken to minimize risk, acknowledgement of challenges and failures, and clearly defined steps to continually improve operations. In the absence of meaningful disclosure, investors and the public cannot differentiate companies’ management of hydraulic fracturing risks.

EXXON FAILS TO PROVIDE INVESTORS WITH RELEVANT METRICS NECESSARY TO ASSESS THE COMPANY’S EXPOSURE TO RISKS ASSOCIATED WITH ITS HYDRAULIC FRACTURING OPERATIONS; OR WHETHER THE COMPANY IS EFFECTIVELY MITIGATING THOSE RISKS

Company Practices

Exxon has failed to meaningfully report on key performance indicators necessary to assure investors and the public that it is adequately managing risk. In comparison with its peers, many of which are improving reporting practices, Exxon provides very little data on its website and 10-K regarding the environmental and social impacts of its hydraulic fracturing operations, relying instead on generalized assurances of good practices. It has become increasingly clear, however, that Exxon’s mere assurances are insufficient to assist investors in understanding whether Exxon is effectively mitigating risk. An analysis of Exxon’s lack of disclosure follows:

1). **GOALS AND SYSTEMS TO REDUCE TOXICITY OF DRILLING FLUIDS** - Exxon provides no information as to whether it has goals in place, or has established systems, to reduce the toxicity of its drilling fluids. Toxic chemicals used in hydraulic fracturing operations continue to be a flashpoint of public concern due to the potential that such chemicals can pollute groundwater -- a critical drinking water source for many communities. Chemicals can include carcinogens and biocides among others. Exxon provides no information as to whether it has set goals to reduce the toxicity of the chemicals it is using, whether it has asked suppliers to do so, or whether it has made any progress in reducing toxicity of the chemicals used in its hydraulic fracturing operations.

Peer Comparison: An increasing number of companies are taking action to reduce the toxicity of their fracking fluids. Chevron,⁶ EQT,⁷ and Hess⁸ each provide some quantitative measure of toxicity reductions.

⁵ “Exxon Mobil CEO: No Fracking Near My Backyard,” <http://www.usatoday.com/story/money/business/2014/02/22/exxon-mobil-tillerson-ceo-fracking/5726603/>

Others, while not yet providing quantified reductions, provide more general information of systems they are using to reduce toxicity. For instance:

BHP Billiton Ltd. reports that in Texas's Permian Basin, it uses an ozone-based oxidation process to kill bacteria, eliminating the need to use a biocide and another chemical. EQT Corporation similarly reports replacing traditional biocides with non-chemical alternatives. Apache Corporation has reported that 83 percent of the volume of fracturing chemicals it uses are listed by the U.S. Environmental Protection Agency's Design for Environment Program, which has created a set of relatively protective health and environmental criteria for safer chemicals...Anadarko Petroleum Corporation has developed a Chemical Assessment Rating Evaluator to improve the chemical profile of its fracking fluids, and Encana Corporation is expanding the scoring system for its Responsible Products Program, adding evaluation of drilling fluids to its current evaluation of fracking fluids. (However, the company is still not reporting its overall scores publicly.)⁹

2) PERCENTAGE OF DRILLING WASTES MANAGED IN CLOSED LOOP SYSTEMS; GOALS TO ELIMINATE THE USE OF OPEN PITS FOR STORAGE OF DRILLING FLUID & FLOWBACK WATERS – Exxon provides little to no information about its storage of toxic drilling wastes and flowback waters. Historically, Exxon has indicated that it uses surface pits to store drilling wastes and flowback waters, but currently provides no substantive information about its waste storage practices across the locations in which it conducts hydraulic fracturing. Storage of drilling wastes (which often contain toxic chemicals) and flowback waters in open pits is one of the highest risk pathways for surface water contamination¹⁰ and can also cause infiltration into ground waters where ponds are unlined or improperly lined. Storing such wastes in open air pits may also pose risks to community health as chemicals are released into air, a potential emission source that is rarely monitored.¹¹ The practice of storing wastes in closed loop systems is gaining ground as a way to avoid or reduce these problems. While storage tanks are an improvement to open pits, they must still be properly maintained. In July 2014, Exxon's hydraulic fracturing subsidiary was found to have spilled 57,000 gallons of wastewater from a leaking tank into the Susquehanna River due to failure to provide adequate spill containment.¹² In December 2014, Exxon settled Clean Water Act violations with EPA for a total of over

⁶ Partnering in the Marcellus (Chevron has reduced the number of hazardous materials requiring Material Safety Data Sheets (MSDS) in fracturing fluids by 77 percent, from 31 to 7)", p. 13,

<http://www.chevron.com/documents/pdf/PartneringMarcellus.pdf>

⁷ 2014 EQT Social Responsibility Report (50% reduction in acid utilization), p. 16,

<C:\Users\dfugere\Documents\deskpins-1.30>

⁸ 2014 Hess Social Responsibility Report (50 reduction in biocide use), pp. 45-46, <http://www.hess.com/docs/default-source/sustainability/hess-corporation-2013-csr.pdf?sfvrsn=2>

⁹ "The Right Chemistry: Apache and ACS GI Collaborate to advance greener fracking fluids," R. Liroff, Green Biz, (January 2016), <http://www.greenbiz.com/article/apache-and-acsgci-collaborate-advance-greener-fracking-fluids>.

¹⁰ See Resources for the Future, "Pathways to Dialogue: What the Experts Say About the Environmental Risks of Shale Gas Development, Overview of Key Findings," Krupnic, Hal Gordon, and Sheila Olmstead, p.6, (2013),

http://www.rff.org/Documents/RFF-Rpt-PathwaystoDialogue_Overview.pdf,

¹¹ See "Waste Pit Emissions – The Big Unknown," Inside Climate News,

<http://insideclimatenews.org/news/20141002/graphic-frackings-waste-pit-emissions-big-unknown>

¹² "Exxon fights over Fracking with Pennsylvania Attorney General," <http://www.wsj.com/articles/exxon-says-it-is-getting-singled-out-over-fracking-1405011974>.



\$5,000,000 to resolve violations for illegally filling wetlands and polluting Pennsylvania waters during fracking operations.¹³

Peer Comparison: Encana is adopting a closed-loop water management system across its operations in the Piceance Basin in Colorado, closed approximately 180 historic and active pits, and committed to avoiding construction of any new drilling or flowback pits on pad sites.¹⁴ Six other companies report having moved to adopt closed-looped systems in some portion of their operations,¹⁵ including Anadarko, which uses closed loop management systems in its Marcellus and Wattenberg operations and CONSOL Energy in its Marcellus operations.¹⁶

3) **PRE- AND POST- DRILLING GROUNDWATER TESTING** – Exxon provides no information on whether it conducts pre- and post- drilling groundwater testing. Groundwater contamination is one of the issues of greatest public concern about the hydraulic fracturing process. Pre- and post- drilling groundwater testing allows companies to monitor groundwater before and after operations, providing critical information about contamination, should it occur, and giving companies an opportunity to address any problems in a timely manner. This testing not only helps to allay public concern, but provides a baseline of data against which claims of contamination can be measured to both protect the public and the company. Wyoming and Illinois have already begun requiring this type of testing.¹⁷

Peer Comparison - Hess Petroleum states that it has adopted the practice of testing before and after conducting hydraulic fracturing, at a minimum of a 2,500 foot radius, except in North Dakota where the state monitors an established network of groundwater wells.¹⁸ Penn Virginia and Shell also state that they conduct post-drill monitoring in all plays. Six other companies report that they conduct some type of pre-drill monitoring.¹⁹

4) **PERCENTAGE OF WELLS USING ‘GREEN COMPLETIONS’ TO REDUCE RELEASE OF METHANE; METHANE LEAKAGE AS A PERCENTAGE OF TOTAL PRODUCTION** – Exxon provides no quantitative information on green completions and does not report its methane leakage as a percentage of total production. Methane is a tremendously potent greenhouse gas, with a “global warming potential” 86 times that of carbon dioxide over a 20-year time frame and 28-34 times more potent over a 100 year time frame.²⁰ Natural gas burns more cleanly than coal, and has therefore been associated with reduced climate change emissions, but

¹³ The company will pay \$2.3 million in fines and \$3 million to restore eight sites damaged by company actions, <http://powersource.post-gazette.com/powersource/companies-powersource/2014/12/22/ExxonMobil-subsiary-to-pay-2-3-million-for-violating-Clean-Water-Act-in-W-Va/stories/201412220207>

¹⁴ “Caring About Water in Colorado,” <http://www.encana.com/news-stories/our-stories/environment-caring-about-water-in-colorado.html>

¹⁵ See *Chart Water and Waste Issues*, “Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing,” p. 14, <http://disclosingthefacts.org/>.

¹⁶ *Id.*, at p. 21.

¹⁷ See <http://wyofile.com/dustin/wyoming-embarks-on-groundwater-monitoring-rule-for-oil-and-gas-development/> and Illinois Hydraulic Fracturing Regulatory Act, <http://www.ilga.gov/legislation/publicacts/98/PDF/098-0022.pdf>.

¹⁸ Hess Corporation 2011 Corporate Sustainability Report, p. 21, <http://www.hesscorporation.com/downloads/reports/EHS/US/2011/default.pdf>

¹⁹ See “Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing,” pp. 16-17, <http://disclosingthefacts.org/>.

²⁰ See “Climate Change 2013: The Physical Science Basis, Intergovernmental Panel on Climate Change,” page 714, http://www.climatechange2013.org/images/report/WG1AR5_ALL_Final.pdf.



those benefits can be offset by leakage of methane in the production, transmission, and distribution processes. In particular, oil and gas well completion, and well leakage, can be sizeable sources of greenhouse gas emissions.

Accurately tracking the global warming-intensity of natural gas is a critical financial concern of investors. Utilities have been moving from coal to natural gas due to its lower global warming potential, but this advantage could be quickly eroded if leakage and poor production practices cause natural gas' actual global warming intensity to be near to or higher than coal's. This is particularly true as renewable energy sources are becoming cost competitive with natural gas.

Current methane-related regulations at oil and gas operations are quite limited in the types of emission sources addressed, in the monitoring required, and in the actions required to be taken to reduce leaking, venting, and flaring. Exxon states that "responsible leak management practices are diligently applied at all stages of drilling, completion and production,"²¹ but provides no information about these practices, no information about whether it conducts green completions on wells that are not currently regulated, whether it monitors and fixes leaks across *all* its wells, or whether or how it uses leak detection technology. It also fails to provide the percentage leakage rate for methane from its drilling, completion, and production operations. This range of information is critical to understanding whether Exxon is undertaking appropriate measures to ensure that its natural gas is less climate forcing than other fossil fuel energy sources.

Peer Comparison: A range of Exxon's peers have recently begun to publicly report on this issue. In a 2014 survey of 30 oil and gas companies, 16 of Exxon's peers reported that they used methane leak detection technologies to identify leaks; ten companies reported the percentage of wells at which they used green completions; and three companies, Apache, EQT and Range Resources, reported their percentage leakage rate for methane from drilling, completion, and production operations.²²

5) QUANTITIES OF WATER USED BY REGION – Exxon does not provide data regarding its water use by region, even for operations in areas of drought. A recent study of water use in hydraulic fracturing operations in the U.S. found that most operations occur in areas currently experiencing "high water stress," including the Permian Basin in Texas, in which Exxon operates.²³

The high volume of water used during hydraulic fracturing operations can pose substantial risks to companies operating in water constrained regions -- from impeding operations, to increasing costs when water must be purchased, to creating competition (actual or perceived) for limited water resources -- especially in arid areas and regions experiencing droughts.²⁴ Metrics relating to amount of water used by

²¹ "Unconventional Resources Development – Managing the Risks," Exxon Mobil Corp. (Sept. 2014), p. 28, http://cdn.exxonmobil.com/~media/global/files/other/2014/unconventional_resources_development_risk_management_report.pdf

²² "Disclosing the Facts 2014", p. 26, <http://disclosingthefacts.org/>.

²³ A recent study of 25,000 shale wells revealed that nearly half were developed in water basins with "high" or "extremely high" water stress. For example, 92% of Colorado's nearly 4,000 wells were drilled in "extremely high" water stress areas, and even in the Susquehanna River Basin, where water is abundant, drought conditions caused the Susquehanna River Basin Commission to suspend water withdrawal privileges for companies during two recent summers. See Ceres, "Hydraulic Fracturing & Water Stress: Growing Competitive Pressures for Water", (2013) <http://www.ceres.org/resources/reports/hydraulic-fracturing-water-stress-growing-competitive-pressures-for-water>.

²⁴ *Id.* 5

region, the companies' rates of recycling and reuse of produced water or waste water, and reductions in freshwater withdrawals are critical for investors in assessing the extent to which companies are mitigating exposure to water-related risks. Exxon provides no such information to investors, preventing them from objectively evaluating Exxon's risk exposure and risk management practices relating to impacts on local water sources.

The Appalachian Shale Regional Practices group (ASRPG) principles and the International Energy Agency's *Golden Rules for a Golden Age of Gas* report both call for quantitative reporting on water use and recycling.²⁵

Peer Comparison: Occidental Petroleum provides one of the best examples of effective water use reporting. It provides key metrics on water use for many of its regional operations (e.g., South Texas, North Dakota, and Colorado) in easy-to-use charts, including amount of potable municipal fresh water and other fresh water used; percentage of total use from each source; amount of non-freshwater used; amount of produced water generated and recycled; and direct discharge to surface waters.²⁶ In contrast to Exxon, investors are able to objectively assess Occidental's risk exposure and risk management practices relating to impacts on local water sources.

6) NUMBERS AND TYPES OF COMMUNITY COMPLAINTS AND PORTION RESOLVED – Exxon does not report information on numbers and categories of community complaints received or its resolution of those community complaints. The impacts of hydraulic fracturing operations on local communities has frequently led to highly strained relations between oil and gas companies and the communities in which they operate. Failure to properly address these types of concerns has created financial implications for companies. In the recent past, shareholders have suffered losses in their investments when company operations have been curtailed by bans and moratoria enacted by communities concerned about the adverse impacts associated with hydraulic fracturing operations. As noted above, Exxon has directly experienced the effects of moratoria that impede its ability to operate. Consequently, investors are seeking evidence that companies have comprehensive systems in place for identifying and addressing concerns from the local communities in which they operate.

Another risk of unresolved community complaints is litigation. For example, in 2011, Exxon's XTO subsidiary was named as a defendant in a class action lawsuit in the U.S. District Court for the Eastern District of Arkansas for "noxious and harmful nuisance, contamination, trespass and diminution of property values that the Gas Wells have caused . . ." including allegations of drinking water contamination.²⁷

Peer Comparison: EQT launched an "issues tracking and resolution" process in 2013. Of the 113 issues reported in the database by the company's network of designated community advisors, 54% related to construction traffic or road conditions, 20% to possible property damage, and the remaining 27% to a variety of additional issues. EQT also operates a related water tracking program, which tracks complaints and other data. Company staff now report quarterly to senior corporate management on "the number of

²⁵ For ASRPG, see http://asrpg.org/pdf/ASRPG_standards_and_practices-April2012.pdf. For the IEA report, see http://www.worldenergyoutlook.org/media/weowebsite/2012/goldenrules/weo2012_goldenrulesreport.pdf

²⁶ See <http://www.oxy.com/SocialResponsibility/Environmental-Stewardship/Pages/Water-Performance-Metrics.aspx> for specific metrics on: water withdrawals, produced water, water recycling and reuse, and produced water by region.

²⁷ "A fracking class action lawsuit," <http://desmogblog.com/2013/05/15/faulkner-county-exxonmobil-sacrifice-zone-tar-sands-pipelines-fracking>



complaints received per 100 wells spud [wells where drilling has begun].”²⁸ Such a system is readily accessible and provides information to shareholders and the public about how the company is addressing community issues. While this is only one type of system to effectively address community complaints, it provides a workable model for demonstrating how issues are being resolved by the company.

RESPONSE TO EXXON’S ARGUMENTS

In its Opposition statement, Exxon argues that its 2010 - 2013 Corporate Citizenship Reports (CCRs) “all discuss issues surrounding the development and production of unconventional resources.” (Exxon Proxy Memo 2015, p. 73). While Exxon does discuss, in general and non-quantitative terms, certain broad issues concerning hydraulic fracturing operations, as discussed above, the company does not disclose specific information to satisfy this resolution. Where Exxon provides any data, it is generally aggregated, company-wide statistics, which reflect Exxon’s total oil, gas, chemical, and other operations around the world.

These metrics do not meet the requirements of the Proposal because company-wide, world-wide metrics not only provide no quantifiable information as to what is occurring at Exxon’s hydraulic fracturing operations, but these company-wide statistics could easily mislead investors and community members into believing that improvements are being made when, in fact, such improvements are occurring at other company operations such as refineries or offshore drilling wells in other countries. Company-wide metrics, which reflect Exxon’s operations around the world, provide no useable information for shareholders as to what is happening locally at Exxon’s natural-gas hydraulic fracturing and drilling operations.

Exxon’s other arguments against this proposal are:

- (1) That it provides information about fracture fluid chemical additives and water use at each well. Proponents do not disagree that, for each well listed in Frac Focus, information is provided as to non-confidential chemical additives and amounts of water used. While useful, this information is insufficient to address the broader request of the Proposal which is whether Exxon has adopted goals or systems to reduce the toxicity of the chemicals it uses in hydraulic fracturing.
- (2) That Exxon has prepared the report *Unconventional Resources Development, Managing the Risks* after a similar resolution was proposed in 2014. Again, while general information is presented in this report, including industrywide studies and a generalized discussion of a range of issues of concern to shareholders, it almost wholesale fails to provide the specific or quantifiable information requested by shareholders. Exxon’s refusal to discuss any of the specific best management practices it undertakes has become increasingly evident as other companies have adopted more transparent reporting. Whether Exxon is failing to keep up with the industry in adopting best management practices, or simply failing to be transparent to shareholders, remains a mystery but is of increasing concern.
- (3) Exxon claims that they “regularly engage with the relevant regulatory authorities and communities where we operate” and that “when specific concerns arise, we work to address them directly.” While this may be true, it does not answer the issues raised in this proposal. How the company engages,

²⁸ <http://www.eqt.com/docs/pdf/2014%20EQT%20CSR%20Report.pdf>



what comes out of those engagements, and whether Exxon has resolved community concerns are the relevant questions. Engagement is important, but effective results are the final goal.

- (4) That “ExxonMobil is committed to environmentally responsible operations” and that their environmental performance is managed through our Operations Integrity Management System (OIMS). While Exxon’s OIMS system provides general guidelines for operation practices, specific applications of these practices for hydraulic fracturing remain ambiguous. Essentially, this argument asks shareholders, community members, and policy makers to simply trust Exxon. It has become clear that communities and policy makers are no longer willing to simply trust companies, which creates risks for companies’ social license to operate, especially when companies are unwilling or unable to provide specific data regarding the impact of their hydraulic fracturing and drilling operations.

Given the continuing vocal concerns being raised by communities and, increasingly by policy makers, about hydraulic fracturing operations, including the continuing potential for bans and moratoria, companies must begin providing *quantifiable* information about their progress in adopting and implementing practices to minimize adverse impacts from their horizontal drilling and hydraulic fracturing operations. Exxon’s reporting and transparency practices remain some of the worst in the industry, which is an increasing concern for shareholders. Companies that have improved their reporting on oil and gas operations have begun to prove that openness and accountability are benefits to the companies, while failure to disclose breeds growing suspicion and concern, which can become costly to shareholders and to companies alike.

CONCLUSION

We are concerned that Exxon currently fails to provide the transparent, widespread, and detailed reporting necessary for shareholders and the public to assess Exxon’s progress towards achieving best practices. As highlighted in proponents’ resolution, the Department of Energy panel has urged companies to “adopt a more visible commitment to using quantitative measures as a means of achieving best practice and demonstrating to the public that there is continuous improvement in reducing the environmental impact of shale gas production.” (emphasis in original).²⁹ We encourage shareholders to vote in support of this proposal calling on the company to provide quantitative reporting on the results of its procedures and practices, in order to measure the company’s effectiveness in minimizing the adverse environmental and community impacts of its hydraulic fracturing operations.

²⁹ http://www.shalegas.energy.gov/resources/111811_final_report.pdf, page 9.