



*Investors and environmentalists
for sustainable prosperity*

December 7, 2010

Senator Bob Graham, Co-Chair
William K. Reilly, Co-Chair
National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling
One Thomas Circle, 4th Floor
Washington DC 20005

Re: Including SEC Risk Disclosure Recommendations in Commission Final Report

Dear Senator Graham and Mr. Reilly,

As President of Ceres and Director of the Investor Network on Climate Risk (INCR), I am writing concerning the critical role that the Securities and Exchange Commission (SEC) should play in improving corporate reporting of material offshore drilling risks. Greater transparency will benefit investors, regulators and ultimately the public by making it clear whether and how the industry is actually addressing the weaknesses identified by the Macondo spill, and by leveraging market forces to push for improved performance on spill prevention and response.

INCR is a diverse group of investors including asset managers, state and city treasurers and comptrollers, public and labor pension funds, and foundations, including over 90 institutional investor members managing approximately \$9 trillion in assets. Since 2003, INCR members have advocated for SEC guidance on the disclosure of climate change-related risks and opportunities in SEC filings, resulting in the Commission issuing Interpretive Guidance on the issue in February.

In June 2009, 41 INCR members with approximately \$1.4 trillion in assets under management asked the SEC to “require disclosure of material environmental, social, and governance risks” and noted that examples of these risks include “environmental risks related to climate change, water scarcity, toxic chemicals, and natural resource conservation; social risk factors such as labor practices, working conditions, slave labor, and human rights; and governance issues such as board accountability and executive compensation.”¹ The enormous risks posed by poor offshore drilling risk management practices directly impact many of these issues, including toxics, natural resource impacts, labor practices, and governance. As illustrated by the BP Gulf disaster, offshore drilling accidents can result

¹ See News Release, “Investors With \$1.4 Trillion in Assets Call on the SEC to Improve Disclosure of Climate Change and Other Risks”, June 12, 2009, available at <http://www.ceres.org/Page.aspx?pid=1106>.

in significant destruction of company and shareholder value, directly and materially impacting investor interests.

I ask that in its final report to the President, the Commission recommend that the SEC develop rules or guidance under its existing regulatory authority to ensure consistent disclosure of material offshore drilling risks. These regulations or guidance would help protect investors from future losses by allowing investors to understand the quality of oil and gas companies' risk management policies and practices, and seek to improve them where they are deficient. In addition, new regulations would reinforce any Commission recommendations in its final report regarding practices at other federal agencies overseeing offshore drilling, by improving transparency of corporate health, safety and environmental policies and practices.

Investors I work with have already taken steps to improve voluntary corporate disclosure of these risks and opportunities. On August 4, 2010, INCR members and other global investors sent letters to 27 major oil and gas companies, asking them to disclose information regarding their risk oversight measures, including spill prevention and response plans, for their offshore oil and gas operations around the world (see Appendix A). These letters were signed by 58 U.S. and global investors with collective assets totaling more than \$2.5 trillion. Our initial reviews of responses to the letters indicate that voluntary disclosure, while helpful, cannot produce the type of consistent disclosure of *material* risks that investors need; only SEC action can do this.

As you know, deepwater drilling has become increasingly critical to the global oil industry, accounting for roughly half of new oil discoveries over the last five years. Also, deepwater production capacity (2,000 feet or deeper) has tripled since 2000 to five million barrels a day and has the potential to double again by 2015.² There are now 14,000 deepwater wells worldwide.

SEC action is especially important because news reports following the Macondo disaster highlighted that inadequate risk management practices—such as inadequate oil spill response plans—are widespread within this growing industry and therefore pose continuing threats to investors.

Specifically, I ask the Commission to make recommendations that new SEC disclosure regulations or guidance related to offshore drilling address the following topics:

Environmental, health and safety (EHS) performance – Disclosure of data on safety and environmental performance and violations can help investors understand how well risk management policies are implemented in the field, in order to assess the risks of spills. The financial reform law passed in July took a similar approach to improving disclosure of mine safety information, requiring that companies involved in coal and other mining report certain safety violations in SEC filings, and authorizing the SEC to issue rules or regulations to that effect.³ This type of reporting is equally

² Cambridge Energy Research Associates

³ See Sec. 1503: Reporting Requirements Regarding Coal Or Other Mine Safety, Public Law 111–203: Dodd-Frank Wall Street Reform And Consumer Protection Act, July 21, 2010.

important for offshore drilling companies, because drilling poses safety risks similar to or greater than mines.

In addition, the following disclosure would be helpful to investors who are seeking to understand the quality of implementation of EHS policies: whether a company's board of directors requires third-party independent monitoring and auditing of EHS functions for the company's own offshore operations, as well as those of its contractors and joint venture partners.

Investment in accident and spill prevention and response – Disclosure of comparable data on investments in safer offshore drilling technologies, technologies related to rig safety and accident prevention, and spill response technologies will allow investors to understand how companies are positioned both to prevent costly spills and respond quickly to them, limiting damages and resulting costs.

Spill contingency plans – Disclosure of the existence and nature of plans to manage deepwater blowouts, including assurance of those plans by outside auditors, will protect investors in the event of a spill. This disclosure could include information on industry partnerships to manage spills, frequency of plan updates, and board oversight of these plans.

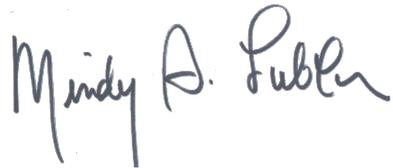
Contractor selection and oversight – Disclosure of systems for managing and evaluating the environmental, health and safety (EHS) policies and procedures of contractors is important, because of the common use of contractors in this industry for critical tasks. Reporting of the following issues is also valuable to investors: the use of EHS criteria in the contractor selection process, whether compensation is tied to these criteria, and ongoing monitoring of contractor performance regarding these criteria.

Governance and management systems – Disclosure of the following governance and management systems issues can help investors with the difficult task of understanding the quality of board and management oversight of offshore drilling risks:

- a) The board's role in overseeing management of EHS risks, including whether a specific committee is tasked with oversight, whether any board members have specific expertise in this area, and the nature of any EHS systems and implementation reviews the board has conducted since the BP Macondo spill.
- b) Specific, quantitative targets for managing offshore oil and gas-related EHS risks.
- c) Descriptions of how compensation and incentive packages for senior management include specific ties to EHS performance results.
- d) Because EHS regulatory requirements vary by jurisdiction for offshore oil exploration and production, the nature of any global standards used to design wells and safety systems for the highest safety performance.
- e) Policies and procedures to ensure that whistleblower complaints are addressed and whistleblowers are protected from retaliation, including the application of these policies to contractors, the oversight of these policies, and the nature of board oversight of these policies.

Thank you very much for your consideration of these important issues. I would be happy to discuss these issues in greater detail if that would be helpful to your deliberations.

Sincerely yours,

A handwritten signature in black ink that reads "Mindy A. Lubber". The signature is written in a cursive, flowing style.

Mindy S. Lubber
President, Ceres
Director, Investor Network on Climate Risk

cc:

Frances G. Beinecke, Member
Donald Boesch, Member
Terry D. Garcia, Member
Cherry A. Murray, Member
Frances Ulmer, Member



APPENDIX A

August 4, 2010

Dear CEO,

We are a group of over 58 investors representing more than \$2.5 trillion in total assets who are concerned about potential risks associated with Apache's offshore oil and gas operations. The April blowout at BP's Macondo well in the Gulf of Mexico, and the explosion and fire on the Deepwater Horizon drilling rig that killed 11 workers, has led to one of the greatest environmentally-related destructions of shareholder value in history.

The shareholder harm that has flowed from the BP spill has focused investor attention on governance, compliance and management systems needed to minimize risks associated with deepwater offshore oil and gas development worldwide. The BP Gulf of Mexico disaster has also raised concerns about response plans by companies and the industry for dealing with offshore accidents, regardless of the strength of a company's risk management systems.

It is important for all companies involved in subsea deepwater drilling to be open and transparent with investors and stakeholders at this crucial historic moment. We write to request additional information on the measures and programs Apache has in place for managing risks associated with its offshore oil and gas operations, as well as any changes the company plans to make in its risk management framework as a result of the BP Gulf of Mexico spill. We would appreciate responses to the attached questions, as well as any additional information that the company believes would be helpful to investors on this subject, by November 1, 2010. We would also welcome the opportunity to meet with the company to discuss these issues in more detail.

Please direct responses, as well as any questions and concerns, to Andrew Logan, Oil Industry Program Director at Ceres, at Logan@ceres.org or 617-247-0700 x133.

See the enclosed list of investor signatories that this letter represents.



1. Investment in spill prevention and response

- a) How much money has Apache invested in each of the last three fiscal years on research and development with respect to: safer offshore drilling technologies; technologies related to rig safety and accident prevention; and spill response technologies?

2. Spill contingency plans

- a) Detail Apache's plan to manage deepwater blowouts. What steps is the company taking, including steps in partnership with its industry peers, to study and develop improved ways to contain and manage spills and blowouts offshore?
- b) How often does Apache update its spill/disaster contingency plans? Does the board approve those updates?
- c) Does Apache believe that current technology for cleaning up oil spills at the surface is adequate? If not, what plans does the company have to improve spill cleanup technology, either on its own or by working with industry peers?
- d) What additional information should investors consider in evaluating Apache's policies, practices and management systems for spill prevention and response?

3. Lessons learned from BP Macondo well blowout

- a) What lessons has the company learned from the BP spill? Have those lessons caused Apache to reassess its offshore risk management, its well designs and drilling and completion procedures, or its disaster response plans? If so, what changes have been made or are planned?
- b) Based on current information, please describe how Apache's deepwater well designs, drilling and completion procedures differ significantly from BP's Macondo well with regard to environmental, health and safety (EHS) performance and safeguards.
- c) The BP spill and resulting Gulf of Mexico drilling moratorium suggest all offshore operators will be penalized for the mistakes of weaker operators. Is Apache taking any steps to raise the bar for performance by the offshore oil and gas industry as a whole? Does the company support improved regulation, and improved enforcement of existing regulation, in the offshore environment both in the Gulf of Mexico as well as internationally? If so, what changes to these regulations and enforcement does the company support?

4. Contractor selection and oversight

- a) What systems does the company have in place to manage and evaluate the environmental, health and safety (EHS) policies, procedures and performance of contractors involved in the drilling and service of offshore wells? Please describe how EHS criteria are weighted in the selection process and any due diligence performed prior to hiring contractors.
- b) What steps does Apache take to verify that its contractors perform their services correctly and that their safety systems and equipment are in operating order? In addition, please describe how contractor compensation is determined, including



- whether incentives are used. If compensation or bonuses are tied to EHS performance, please describe.
- c) Does the Board require third-party independent monitoring and auditing of EHS functions for the company's own offshore operations, as well as for contractors?

5. Governance and management systems

- a) What role does the company's board of directors play in overseeing management of EHS risks faced by Apache with respect to its offshore oil and gas operations? Is oversight of these risks assigned to a specific committee of the board? Is there anyone on the board with specific expertise in management of these EHS risks? How does the board review these possible risks and the company's systems and what reviews, if any, have done since the BP Macondo well spill?
- b) Does the company have specific, quantitative targets for managing offshore oil and gas-related EHS risks?
- c) Do the compensation and incentive packages for senior management include any specific links to EHS performance results? If so, please describe.
- d) Where EHS regulatory requirements vary by jurisdiction for offshore oil exploration and production, how does Apache design its wells and safety systems for highest safety performance?
- e) Please describe your policies and procedures to ensure that whistleblower complaints are addressed, and whistleblowers are protected from retaliation. Do these policies and procedures apply to contractors? Who is ultimately responsible for ensuring that this system is functioning properly? Does the Board of Directors receive any reports relating to significant concerns raised through this system?
- f) What systems does your corporation have in place to ensure that material risks related to offshore drillings are disclosed in Securities and Exchange Commission filings?



Investor Signatories to Oil & Gas Company Letter

Ryan Smith
Head of Corporate Governance
AEGON Asset Management

Daniel Pedrotty
Director of the Office of Investment
AFL-CIO

Scott Zdrazil
First Vice President, Director of
Corporate Governance
Amalgamated Bank LongView Funds

Larry Fahn
President
As You Sow

Peter Curtis
Senior Manager - Investments
AustralianSuper Pty Ltd

Steven Heim
Managing Director and Director of ESG
Research and Advocacy
Boston Common Asset Management,
LLC

Doug Pearce
CEO/CIO
British Columbia Investment
Management Corporation (Canada)

John Chiang
California State Controller

Bill Lockyer
California State Treasurer

Bennett Freeman
Senior Vice President of Sustainability
Research and Policy
Calvert Asset Management Company,
Inc.

Michael Quicke
CEO
CCLA Investment Management Ltd

Stephen Viederman
Finance Committee
Christopher Reynolds Foundation

Andrew Brown
CEO
Church Commissioners for England

Shaun Farrell
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Church of England Pensions Board

Denise L. Nappier
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DB Climate Change Advisors, Climate
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Adam Kanzer
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Alex Sink
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Green Century Funds

Ian Simm
Chief Executive
Impax Asset Management Ltd

C. Thomas Keegel
General Secretary-Treasurer
International Brotherhood of Teamsters

Ruth G. Hennig
Executive Director
The John Merck Fund

Richard Metcalf
Director, Corporate Affairs Department
Laborers' International Union of North
America

Cllr Ian Greenwood
Chairman
Local Authority Pension Fund Forum
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David Todd
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David G. Lemoine
Maine State Treasurer

R. Dean Kenderdine
Executive Director
Maryland State Retirement and Pension
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Nancy K. Kopp
Treasurer, State of Maryland &
Chairman, Board of Trustees
Maryland State Retirement and Pension
System

Susan Smith Makos
Director of Social Responsibility
Mercy Investment Services

Luan Steinhilber
Director of Shareholder Advocacy
Miller/Howard Investments

The Rev. Séamus P. Finn, OMI
Director, Justice, Peace Integrity of
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Missionary Oblates of Mary Immaculate

Lance E. Lindblom
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Newground Social Investment

John C. Liu
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Director of Finance
Tides Foundation

Matthew Patsky, CFA
CEO
Trillium Asset Management

Constance Kane
Vice President and COO
Unitarian Universalist Service
Committee (UUSC)

Gary Beevers
International Vice President
United Steelworkers of America

Michael Lent
CIO
Veris Wealth Partners



Investor Network on Climate Risk

A Project of Ceres

Justin Arter
CEO
Victorian Funds Management
Corporation

Timothy Smith
Senior Vice President, Environment,
Social and Governance Group
Walden Asset Management