Grounds for a FOR vote on a shareholder proposal (Item #5) at EOG Resources, Inc. requesting methane emission policy and practices review

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Trillium Asset Management, LLC (Trillium) represents the sponsors of a shareholder proposal on the proxy ballot of EOG Resources, Inc. We encourage EOG shareholders to vote FOR the proposal which asks the Company to conduct a review of its policies, actions, and plans to enhance and further develop measurement, disclosure, mitigation, and reduction targets for methane emissions resulting from all operations.

Rationale for a FOR vote: Conducting a review of its methane emissions policies, actions and plans would give shareholders greater confidence that the Company is appropriately managing its methane emissions and increase the ability to evaluate methane emissions management.

As described below, it appears that many of EOG’s peers are moving far more quickly and effectively to address public concerns over methane emissions and to take the necessary steps to avoid wasting valuable product. We believe that EOG, with its low leverage ratio and ability to postpone production in the current price environment, is well positioned to upgrade its infrastructure in a cost effective manner that will reduce risk and capture more product for sale. But with the lack of disclosure and no demonstrations of public leadership, investors are left without information and without strong assurances that management is appropriately addressing an issue with significant regulatory and reputational risks.

In a regulatory and competitive environment where methane emissions are being debated, we believe investors do not have enough information and EOG is not demonstrating it has an effective strategy.

The need to address methane emissions1 in the oil and gas industry appears to have broad support. For example, EOG peers Hess, Southwestern and Apache have created the One Future Initiative, an effort dedicated to voluntarily achieve a 1% emissions rate for the industry.2 And EOG’s public statements concede that there is a need to reduce these emissions:

1 Methane is the primary component of natural gas and accounts for approximately 9% of total U.S. greenhouse gas (GHG) emissions; by contrast, carbon dioxide accounts for nearly 80% of GHG emissions. However, methane absorbs and traps heat up to 84 times more than carbon dioxide. http://www.edf.org/climate/methane. According to the EPA, methane emissions from the oil and gas industries account for 29% of U.S. methane emissions. http://epa.gov/climatechange/ghgemissions/gases/ch4.html
EOG supports efforts to understand and address the contribution of human activities to global climate change through the application of sound scientific research and analysis. In addition, the company believes that the reduction of air emissions throughout its operations is both in the best interests of the environment and a prudent business practice.  

Accordingly, the only real point of disagreement between the shareholder proponents and management is whether, as the proposal asks, EOG should go further than it currently does with respect to policies, practices, disclosures and target setting and conduct a review of its policies, actions, and plans to enhance and further develop measurement, disclosure, mitigation, and reduction targets for methane emissions resulting from all operations.

**EOG provides only limited disclosures of its methane emissions data, policies and practices.** For example, the Company does not provide its total methane emissions as a percentage of operations, nor what portion is measured by direct detection and measurement versus engineering calculation. It also does not provide information about what proportion of its operations have technologies in place that reduce methane emissions. These basic failures of disclosure mean that investors do not have the ability to comprehensively assess the Company's approach to managing its emissions or the performance of its overall management and related initiatives.

In these basic failings, EOG is a laggard compared to its peers. For example, Apache and Range Resources provide disclosures related to their total methane emissions as a percentage of operations. And other companies, including Southwestern and Hess, are actively working to establish targets through the One Future Initiative.

This Proposal also comes as the Obama Administration is actively questioning the adequacy of the methane regulatory structure and the voluntary measures taken by some companies. In January, the White House announced a plan under which the oil and gas industry would have to cut methane emissions by 40 to 45 percent below 2012 levels by 2025. However, environmental organizations questioned the Administration’s failure to regulate immediately existing oil and gas equipment nationwide. This difference of opinion between the EPA and environmental organizations illustrates how the adequacy of specific oil and gas company efforts, such as EOG’s, to reduce methane emissions will continue to be an issue of public concern and needs further attention from the Company.

Further demonstrating the debate around what steps oil and gas companies should take is the White House’s approval of the actions planned by members of the One Future Initiative which include Apache, Southwestern, Hess and others, but not EOG:

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3 [http://www.eogresources.com/responsibility/climate.html](http://www.eogresources.com/responsibility/climate.html)
The Administration’s actions represent important steps to cut methane emissions from the oil and gas sector. Fully attaining the Administration’s goal will require additional action, particularly with respect to existing sources of methane emissions. Several voluntary industry efforts to address these sources are underway, including EPA’s plans to expand on the successful Natural Gas STAR Program by launching a new partnership in collaboration with key stakeholders later in 2015. EPA will work with DOE, DOT, and leading companies, individually and through broader initiatives such as the One Future Initiative and the Downstream Initiative, to develop and verify robust commitments to reduce methane emissions. This new effort will encourage innovation, provide accountability and transparency, and track progress toward specific methane emission reduction activities and goals to reduce methane leakage across the natural gas value chain.8

The regulatory risk EOG faces in this active debate over methane emissions is also found in a statement from the EPA Administrator earlier this year: “If existing sources aggressively reduce their emissions, then it’s not clear that there will be cost-effective reductions that will necessitate regulation of existing facilities.” That is, if oil and natural gas companies take meaningful steps to reduce their methane emissions voluntarily for existing operations, the EPA may not need to adopt methane rules for existing infrastructure.9

Seeing how the Administration discusses the measures and target setting taken by companies that participate in the One Future Initiative and the warning to operators about a failure to aggressively reduce emissions makes it clear that the question confronting EOG right now is whether it is doing enough. To make that determination we believe strongly that it needs to develop a report that reviews its policies, actions, and plans to enhance and further develop measurement, disclosure, mitigation, and reduction targets for methane emissions resulting from all operations under its financial or operational control.

**We believe EOG can do more to address methane emissions**

It is a basic principle of business management that setting targets and goals is critical to business success. Setting targets allows progress to be monitored and success to be measured. Specific targets will make sure that everyone at the Company clearly understands what they are working toward and provides sound guidance for the decisions management must make. Specific targets provide knowledge and context for the multitude of operational decisions – this should lead to better decision-making.

In addition, there is compelling evidence that EOG can reduce methane emissions and increase returns at the same time. This evidence comes from a report produced with the help of Anadarko Petroleum, BG Group, Pioneer Natural Resources, Southwestern Energy, and the American Gas Association. This report produced by ICF and the Environmental Defense Fund, entitled *Economic Analysis of Methane Emission*

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Reduction Opportunities in the U.S. Onshore Oil and Natural Gas Industries, provides a detailed analysis of technologies that can be implemented today for new and existing infrastructure that will result in both quantifiable cost savings and reductions in methane emissions. Clearly, EOG is being provided with a cost-effective road map to achieve emissions reductions and increase profits. What is needed is a target and public accountability to drive the improvements.

It is important to emphasize that the proposal does not dictate any particular goal or target. For example, the Company could set a goal of reducing all methane emissions from its entire infrastructure to 0.5% of total production. Or it could set the goal of implementing all of the cost positive measures described in the EDF/ICT report for its entire infrastructure by 2018. While different goals will have different levels of environmental effectiveness and financial benefits, the lack of any goals is deeply concerning.

Of course, EOG is no stranger to setting specific goals and targets for itself. For example, consider EOG’s webpage on Safety and Environmental Stewardship (emphasis added):

Safety and Environmental Management
Across the company, EOG has implemented programs and business processes for managing safety and environmental matters with a focus on the assignment of responsibilities, sound risk management and decision-making, efficient and cost-effective planning and operations, legal compliance and continuous improvement of programs and practices.

Our safety and environmental management processes are based on a goal-setting philosophy. The company sets safety and environmental expectations and provides a framework within which management can achieve safety and environmental goals in a systematic way.

EOG’s safety and environmental performance is also considered in evaluating employee performance and managing employee compensation throughout the organization.

EOG’s total recordable incident (injury) rate (TRIR) for 2012 in respect of its U.S. exploration and production operations (and including both EOG personnel and contractors) was 1.214. EOG utilizes the industry-standard measurement of injuries per 200,000 man hours worked in calculating TRIR.

We wholeheartedly agree with this goal-setting philosophy and are encouraging the Company to apply it to methane emissions, arguably its largest environmental risk factor.

If the natural gas industry can learn anything from the controversies surrounding water pollution from fracking, it is that reliance on regulations is not advisable. As a Noble Energy spokesman put it when commenting on Colorado’s adoption of strict methane emissions rules for the natural gas industry - "it’s all about a social license to operate … if we are going to compete on a climate change type of fuel versus

11 http://www.eogresources.com/responsibility/environmental.html
coal we really need to start with methane.”

EOG has the opportunity right now, to demonstrate leadership, which should reduce risk for the Company, while increasing returns.

Conclusion

For the reasons given above we urge our fellow EOG shareholders to support the shareholder proposal. It appears that many of EOG’s peers are moving far more quickly and effectively to address public concerns over methane emissions and to take the necessary steps to avoid wasting valuable product. We believe that EOG, with its low leverage ratio and ability to postpone production in the current price environment, is well positioned to upgrade its infrastructure in a cost effective manner that will reduce risk and capture more product for sale. But with the lack of disclosure and no demonstrations of public leadership, investors are left without information and without strong assurances that management is appropriately addressing an issue with significant regulatory and reputational risks.

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12 http://www.eenews.net/climatewire/2014/02/25/stories/1059995047