RESOLUTION

Shareholders request Hess to prepare a report by September 2014, omitting proprietary information and prepared at reasonable cost, on the company’s goals and plans to address global concerns regarding fossil fuels and their contribution to climate change, including analysis of long and short term financial and operational risks to the company.

SUPPORTING STATEMENT: We recommend the report include:

- The risks and opportunities associated with various low-carbon scenarios, including reducing GHG emissions by 80 percent by 2050, as well as a scenario in which global oil demand declines due to evolving policy, technology, or consumer response to address climate change;
- Whether and how the company’s capital allocation plans account for the risks and opportunities in these scenarios;
- How the company will manage these risks, such as reducing the carbon intensity of its assets, diversifying its business by investing in lower-carbon energy sources, or returning capital to shareholders;
- The Board of Directors’ role in overseeing capital allocation and climate risk reduction strategies.

RATIONALE FOR A YES VOTE

In the 2012 World Energy Outlook, the International Energy Agency states that "[n]o more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2 degree Celsius goal," generally recognized as the level beyond which global warming will have dire ramifications.

If laws and regulations are adjusted to recognize this limitation, the vast majority of fossil fuel companies could be left with stranded assets in the form of unburnable reserves and underused infrastructure. In addition, fundamental shifts in energy markets are underway including plateaus or reductions in demand for fossil fuels; increasing costs to find, produce, and develop oil and gas; and competition from renewables, among others.
This proposal asks companies to report plans to address global concerns regarding fossil fuels and their contribution to climate change, including an analysis of associated long- and short-term financial and operational risks. Further, the resolution asks companies to perform an analysis of various scenarios the company deems likely, or reasonably possible, in which a portion of its reserves or infrastructure become stranded due to carbon regulation, and to discuss the impact those scenarios would have on the company’s plans to invest resources in continuing to explore for or further develop new fossil fuel reserves.

The information requested in this resolution is vital to enabling investors to analyze how companies are positioned to address climate change, carbon restrictions, and related changes in energy markets, providing valuable information for investors to make reasonable judgments about the benefits or risks associated with investing in these companies. After the credit and financial crises of 2008, it critical that investors are more attuned to the catastrophic effects of mispriced assets in the financial market.

FILERS

Co-lead filers of this proposal are As You Sow and the Connecticut Retirement Plans and Trust Funds.

SHAREHOLDER CAMPAIGN

A shareholder initiative was undertaken in September 2013 in which shareholders representing $3 trillion in assets under management asked 45 coal, oil and gas, and utilities for increased disclosure about whether they are addressing carbon related risk, the impact on capital expenditure decisions, and whether they are implementing strategies to avoid stranded assets in a carbon constrained world.

CLIMATE CHANGE RELATED RISKS IDENTIFIED BY HESS – 2013 10K

Concerns about climate change may result in significant operational changes and expenditures and reduced demand for our products. We recognize that climate change is a global environmental concern. Continuing political and social attention to the issue of climate change has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit greenhouse gas emissions. These agreements and measures may require significant equipment modifications, operational changes, taxes, or purchase of emission credits to reduce emission of greenhouse gases from our operations, which may result in substantial capital expenditures and compliance, operating, maintenance and remediation costs. In addition, we market petroleum fuels, which through normal customer use result in the emission of greenhouse gases. Regulatory initiatives to reduce the use of these fuels may reduce our sales of, and revenues from, these products. Finally, to the extent that climate change may result in more extreme weather related events, we could experience
increased costs related to prevention, maintenance and remediation of affected operations in addition to higher costs and lost revenues related to delays and shutdowns.

While generally acknowledging the risks associated with climate change regulations, HESS fails to meaningfully address the risks addressed in this proposal. HESS’s general acknowledgement of risks provides no quantification of likely impact, no recognition that preventing climate catastrophe would require that 2/3 of current fossil fuel assets remain in the ground, no analysis of the extent to which such regulations/risks could affect the company’s value, or whether or how the company plans to address such risks.

RESPONSE TO HESS ARGUMENTS

Hess’ Opposition Arguments are as follows:

1) “The company recognizes the importance, as both an ethical and a business responsibility, of addressing the environmental, social and business impacts of carbon emissions and climate change. To that end, the company publishes an annual sustainability report that details the company’s policies and strategy relating to corporate sustainability, including detailed discussion of the company’s policies and goals in addressing the risks and opportunities for the company presented by climate change and the changing market for energy products and services.” “Eight pages of the 2013 sustainability report are devoted to explaining the company’s climate change strategy and initiatives to implement that strategy.”

Proponents have not been able to locate a 2013 Corporate Sustainability Report on Hess’ website; its 2012 CSR is the latest version available. The 2012 CSR provides details of the company’s five year climate change strategy, key elements of which include addressing GHG emissions intensity, flaring, energy efficiency, carbon accounting and products and services to help customers become more carbon efficient, and a GHG reduction goal of 20% below its 2008 baseline by 2013. Further, Hess describes how the company will address its own GHG emissions, including overall operated greenhouse gas emissions, operated greenhouse gas emissions by source, net equity greenhouse gas emissions, net equity emissions by country, and product use emissions. The CSR report does not address the scenario planning and analysis requested by this proposal.

2) Hess also addresses climate change in its CDP (formerly Carbon Disclosure Project) disclosures. Hess describes its strategic priorities related to climate change as including both mitigation and resilience measures: “reducing the emissions intensity of our operations where we have significant influence; maintaining regulatory compliance, monitoring policy and assessing financial impacts; and top quartile industry emissions performance and climate change disclosures.” Hess also notes that its Carbon Markets Work Group provides guidance on forward pricing for project economics and
carbon monetization opportunities. With regard to climate risk, Hess states that it monitors the evolving regulatory landscape with regard to climate change and is committed to complying with all emissions mandates. “We recognize that climate change is a global environmental concern. Continuing political and social attention to the issue of climate change has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit greenhouse gas emissions. These agreements and measures may require significant equipment modifications, operational changes, taxes, or purchase of emission credits to reduce emission of greenhouse gases from our operations, which may result in substantial capital expenditures and compliance, operating, maintenance and remediation costs.” Hess also notes that the most important components of its long term strategy with regard to climate change (5-20 years) include: “transparent communication of our climate change programs and performance to maintain and enhance our license to operate; clean energy initiatives that capitalize on the abundant supply of natural gas in the US and changes in environmental regulation, carbon cost sensitivity analysis for major new projects.”

While acknowledging and responding to climate change, especially with regard to setting greenhouse gas reduction goals, Hess does not conduct scenario analyses in which demand for oil and gas is greatly reduced due to regulation or other climate-associated drivers, including specifically the scenario in which worldwide regulations achieving an 80% reduction in greenhouse gas emissions by 2050 are imposed (i.e., the 2 degree scenario described by IEA in which global governments require that nearly 80 percent of fossil fuel reserves remain in the ground through 2050). More importantly, Hess provides shareholders with no information on how such a scenario would reduce the value of its oil and gas reserves or whether it would cause stranding of those assets before the end of their useful life. It is this information which is critical to shareholders.

3) Finally, Hess states in its CDP report that, “to address potential regulatory risks and opportunities driven by current and future costs of carbon, we formally implemented a carbon cost sensitivity analysis for major new projects. We are accounting for the cost of carbon in future investments to promote more carbon efficient choices for equipment investment decisions. Starting in 2012, Hess incorporates carbon life cycle tools into our evaluation model for new upstream investment decisions greater than $50 MM. The cost of carbon was included in project economics for all in carbon-regulated areas. In all other areas, the cost of carbon was included as sensitivity in project economics.”

Shareholders appreciate that Hess is using such analyses, but have requested through this proposal that the company provide shareholders with information about how its capital allocation plans account for the risks and opportunities of the scenarios raised in the proposal. Thus, if Hess is pricing carbon in capital planning, what price of carbon is it using, does that price match the 2 degree scenario price? How
does a 2 degree scenario change capital investment, if at all? In a 2 degree scenario would investments in assets other than oil or gas be appropriate, would investments in the asset mix change, etc.?

4) Hess also argues that “Analysis of short-term and long-term financial and operational risks to the company based on the parameters set forth by the proponents, including the assumption that greenhouse gas emissions will be reduced by 80% by 2050, would be extremely speculative and risks confusing and misleading investors about the company’s actual performance.

There has been a great deal of public discussion and analysis of the potential for stranding of fossil fuel reserves if governments act to prevent catastrophic climate change. Shareholders holding over $3 trillion in assets have requested their companies specifically address these scenarios. Far from being speculative, this proposal asks HESS to undertake an analysis of a scenario in which government acts to protect the climate as we know it and under which our economy and society has flourished. Shareholders are sophisticated enough to differentiate between scenario planning, in which a company discusses how its assets will be affected by a potential future event, and actual company performance. Further, the request does not require that Hess merely speculate about these possibilities. Recent studies have assessed the magnitude of the risk—the potential for the stranding of at least 2/3 of worldwide fossil fuel reserves and an associated potential decrease in the value of oil and gas assets. These studies have been brought to the company’s attention in this proposal, in the letter provided by shareholders to the company, and in in-depth conversations with shareholders. Shareholders are requesting that HESS analyze and disclose this new risk and provide a report of the potential impact to HESS, and its goals and plans, if any, to address the potential risk.

The analysis and planning called for by this resolution—an examination of likely and significantly reduced demand and/or use scenarios for fossil fuel reserves—is a reasonable undertaking that the company should already be performing. Proponents acknowledge that there is no certainty on this issue, but the lack of certainty does not excuse inaction. HESS can assess and disclose what impact the stranding of 2/3 of its assets would be, or discuss why it believes that it would be subject to a lesser amount of asset stranding based on type and carbon intensity of its reserves or other factors that would come into play. The company is also fully equipped to provide a range of reduced demand/usage scenarios, to describe how the company would be financially affected by each scenario, and to provide information regarding how, or whether, the company plans to address those risks. This information is critically important to shareholders, the majority of whom may not be aware of these new studies, the potential for stranded assets, or the likely significant impact to fossil fuel valuation associated with achieving the 2°C limit of global warming. Studies and information exist to assist the company with what amount and type of fuels would be available under a two degree scenario including the 2012 World Energy Outlook prepared by the IEA. Bloomberg also now provides a tool that can assist companies in predicting carbon asset risk. In sum, proponents are not asking HESS to randomly speculate or to
accurately predict the future, but to use its planning teams to assess and provide information to shareholders about these risk scenarios.

Another basic request of the proposal is for Hess to discuss whether and how the company’s capital allocation plans account for the risks and opportunities in these scenarios. Until Hess analyzes a range of scenarios around the 80% reduction, its capital allocation planning cannot meet the request in this proposal. Hess does state that it uses carbon pricing in its capital planning, but that pricing does not align with scenarios such as an 80% reduction in worldwide GHG emissions. Shareholders seek information on what changes Hess would make in its capital allocation planning under such a scenario. Once Hess does this planning, its actions may well change. Mere assurances that Hess is using appropriate pricing is insufficient to shareholders.

Another straightforward request in the proposal is whether and how HESS plans to manage these risks, such as diversifying its business by investing in lower-carbon energy sources or returning capital to shareholders. While Hess does note investment in a fuel cell company, it does not clearly provide information on whether it has a plan for managing risks associated with a 2 degree scenario, what kind of diversification would be necessary, etc.

Finally, HESS does not address the Board of Director’s role in overseeing capital allocation and climate risk reduction strategies. Although there is a Board Committee that addresses climate change, it is not clear if this committee also addresses related capital allocation issues.

PEER COMPARISON

Both Peabody Energy and ExxonMobil have recently acted as leaders in the field, publicly agreeing to issue reports on carbon asset risk. As demonstrated by Exxon’s report on carbon asset risk, providing an analysis of the potential for stranded assets and other risks associated with climate change does not require a company to conclude that their assets are at risk. Critically important, however, is providing shareholders with the information and assumptions on which a company bases such conclusions.

CONCLUSION

In order to effectively manage risks and maximize opportunities associated with climate change and climate change regulations, the information requested in this proposal is critical to shareholders. Companies and shareholders need to be fully informed of the risk of stranded reserves and infrastructure and how, or if, the company is planning for a carbon constrained future. This valuable information will enable investors to analyze how the company is positioned to address climate change and carbon restrictions and to make reasonable judgments about the benefits or risks associated with investing in this company with regard to these issues.