

Exxon ads to defend fracking

Company plans campaign in support of controversial gas-drilling technique

BY JOE CARROLL, BLOOMBERG NEWS MAY 26, 2011

ExxonMobil Corp. is planning an advertising campaign to defend natural-gas drilling techniques that landowners and environmental groups say are contaminating drinking water.

Overzealous regulation of hydraulic fracturing is impeding development of gas fields "vital to America's economic success," Exxon chief executive Rex Tillerson told reporters Wednesday after the company's annual meeting in Dallas.

Environmental regulators from Texas to Quebec are taking a closer look at the process, known as fracking, that shoots high-pressure jets of water, sand and chemicals underground to crack open gas-rich rock formations.

New York state has temporarily banned the practice while it develops new rules to ensure the safety of water and air.

"There already are areas we cannot get access to, and if we don't address some of the concerns out there we're going to find it even more difficult to gain access," Tillerson said.

"A lot of the concern has been based on casual statements about risks that simply are not backed up by facts or any kind of studies."

Exxon, based in Irving, Texas, became the largest U.S. gas producer in June with its \$34.9 billion acquisition of XTO, the biggest purchase since Tillerson became CEO in 2006. As oil prices have gained during the past year, Exxon's shares have trailed rivals including BP and Chevron Corp. as a U.S. gas glut depressed prices for the fuel.

"We have taken an enormous position in the unconventional space because we believe this is a resource that is vital to America's economic success," Tillerson said Wednesday.

Shale formations have the potential to more than double the world's gas reserves, the U.S. Energy Information Agency said in an April 5 assessment. The U.S. has an estimated 827 trillion cubic feet of shale gas and it may account for 47 per cent of the country's production of the fuel by 2035, the agency said.

U.S. gas futures have averaged \$4.234 per million British thermal units this year on the New York Mercantile Exchange, a 52-per-cent drop from the \$8.899 average in 2008. Production from U.S. wells rose 4.8 per cent to 21.6 trillion cubic feet in 2010, the highest since 1973, the U.S. Energy Department says.

New York's Department of Environmental Conservation is drawing up proposed rules to regulate drilling in the Marcellus Shale, a formation that stretches beneath several eastern states. The U.S.

Environmental Protection Agency is studying the effects of fracking on water supplies.

U.S. Energy Secretary Steven Chu named a seven-member task force on May 5 to study the risks of fracking after President Barack Obama directed him to develop recommendations on the technique. The panel includes former Central Intelligence Agency director John Deutch, Environmental Defense Fund president Fred Krupp, and Daniel Yergin, co-founder of Cambridge Energy Research Associates, a unit of IHS Inc.

Exxon is in discussions with policy-makers and regulators at federal, state and local levels over how fracking rules can be improved and enforced, Tillerson said. The company wants to preserve the existing system under which states, rather than the U.S. government, oversee gas drilling, he said.

"State-level regulation is ultimately more effective," he said. "Local regulators have a much clearer understanding" of the gas fields and adjacent water supplies.

The marketing campaign will involve town-hall style meetings in areas where gas exploration is accelerating, as well as advertisements, Tillerson said. Focus groups will be polled to hone the message the company wants to communicate, he said.

The company's budget for the campaign was not available, said Alan Jeffers, an Exxon spokesman.

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