



Investor Network on
CLIMATE RISK

a project of **Ceres**

G. Steven Farris, Chairman and CEO
Apache
2000 Post Oak Boulevard, Suite 100, Houston TX 77056

August 4, 2010

Dear Mr. Farris,

We are a group of 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?



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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
CEO
Church of England Pensions Board

Denise L. Nappier
Connecticut State Treasurer

DB Climate Change Advisors, Climate
Change Investment Research

Adam Kanzer
Managing Director & General Counsel
Domini Social Investments LLC

Alex Sink
CFO
State of Florida

Ash Williams
Executive Director & CIO
State Board of Administration (SBA) of
Florida

Hanna Roberts
Research Director
GES Investment Services



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President
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
(LAPFF)

David Todd
Trustee
Magnolia Charitable Trust

David G. Lemoine
Maine State Treasurer

R. Dean Kenderdine
Executive Director
Maryland State Retirement and Pension
System

Nancy K. Kopp
Treasurer, State of Maryland &
Chairman, Board of Trustees

Maryland State Retirement and Pension
System

Luan Steinhilber
Director of Shareholder Advocacy
Miller/Howard Investments

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

Lance E. Lindblom
President & CEO
Nathan Cummings Foundation

Bruce Herbert
Chief Executive
Newground Social Investment

John C. Liu
New York City Comptroller

Thomas P. DiNapoli
New York State Comptroller
New York State Common Retirement
Fund

Janet Cowell
North Carolina State Treasurer

Ted Wheeler
Oregon State Treasurer

Julie Fox Gorte, Ph.D.
Senior Vice President for Sustainable
Investing
Pax World Management LLC

The Hon. Robert M. McCord
State Treasurer
Commonwealth of Pennsylvania



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Rev. Robert K. Finnegan, O.Praem.
Asst. Secretary-Treasurer, Corporate
Responsibility Representative
The Premonstratensian Fathers

Michael H. Crosby, OFM Cap.
Corporate Responsibility Office
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Socially Responsible Investment
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Racine Dominicans

Andy Pomfret
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Michael Lent
CIO
Veris Wealth Partners

Justin Arter
CEO
Victorian Funds Management
Corporation

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



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Evan G. Greenberg, Chairman and CEO
ACE
17 Woodbourne Ave, Hamilton HM08 Bermuda

August 3, 2010

Dear Mr. Greenberg,

We are a group of 53 investors representing more than \$2.5 trillion in total assets who are concerned about the potential risks associated with ACE's offshore oil and gas underwriting exposure. The April 2010 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 investor value in history.

The shareholder harm that has flowed from the BP spill has focused investor attention on the need for good governance, compliance, and management systems to minimize the risks associated with deepwater offshore oil and gas development worldwide. The BP Gulf of Mexico disaster has also highlighted the need for clear, comprehensive, well-tested response plans by oil and gas companies for dealing with future offshore accidents.

It is important for all companies involved in 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 ACE has in place for managing exposure to risks posed by its offshore oil and gas underwriting. We are also interested in learning more about any changes the company is considering in its underwriting standards as a result of the recent Gulf of Mexico spill. We would appreciate responses to the following questions, as well as any additional information that the company believes would be helpful to investors on this subject, by November 1st, 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 Sharlene Leurig, Insurance Industry Program Senior Manager at Ceres, at Leurig@ceres.org or 617-247-0700 x127.

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



1. Exposure Control

- a) Following the recent spill and resulting moratorium, is ACE considering adjusting its exposure to offshore oil and gas operations? If so, how might these plans affect policy volume in lines such as workers compensation, environmental liability, professional liability, Comprehensive General Liability, Directors and Officers, property casualty, business interruption or other relevant business lines?

2. Risk Transfer

- a) Is the company reevaluating its reinsurance provision or use of insurance linked securities in light of realized and/or projected losses stemming from the ongoing spill? If so, please explain.

3. Underwriting Criteria

- a) The response to the BP spill raises concerns about the adequacy of oil and gas companies' plans and procedures for managing blowouts in deepwater environments. Does ACE currently evaluate an insured's contingency plans for managing deepwater blowouts? If so, how often does the company expect an insured to update their contingency plans for this sort of event? Is ACE considering revising its due diligence procedures in this area in light of the spill? Is ACE thinking of adjusting its terms and conditions or pricing based on an insured's contingency plan to manage deepwater blowouts? Any information you are able to provide in these areas would be most appreciated.
- b) Does ACE routinely evaluate the environmental, health and safety (EHS) policies, procedures and performance of an insured's contractors involved in the drilling and servicing of offshore wells?
- c) What steps do you think a company like yours could take to verify that contractors perform their services correctly and that their safety systems and equipment are in operating order?

4. Public Policy Support

- a) The BP spill and resulting moratorium suggest that legislative or regulatory public policy revisions may be needed to minimize the potential for similar future losses. What kind of regulatory changes does ACE think are necessary to avoid these kind of costly accidents in the future?

5. Governance and Management Systems

How does the Board of Directors, in its approach to risk governance, assess ACE's exposure to this type of major industrial catastrophe with far reaching implications for the sector as a whole?



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