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Exxon, Chevron Under Pressure From Shareholders Over Natural Gas Fracking

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Big oil companies active in natural gas drilling are under increasing pressure to disclose the environmental and financial risks associated with hydraulic fracturing.

At yesterday's annual meetings of Chevron and ExxonMobil, a significant minority of shareholders sent a strong message by voting in favor of resolutions asking for a report on the environmental and financial risks of hydraulic fracturing (commonly referred to as "fracking") in natural gas drilling.

Fracking is a process of injecting a mixture of water, chemicals, and particles underground to create fractures through which gas can flow for collection.

At Chevron 41 percent voted in favor, while 28 percent voted in favor at ExxonMobil.

Although the resolutions were voted down, even minority shareholder votes can have a big impact. A vote of 10 percent, for example, is usually enough to send a clear message to company management, says advocacy group As You Sow, which filed the resolutions

"Today's votes clearly demonstrate that mainstream investors are concerned about fracking and want more disclosure on how these companies are dealing with the environmental, public health, and financial risks associated with this practice," says Michael Passoff, Senior Strategist with As You Sow. "The fact that 41 percent of Chevron investors voted in favor of more disclosure, an exceptionally high level of support for a first-year resolution, shows how seriously the company's shareholders are taking this issue."

"We know there are risks," ExxonMobil CEO Rex Tillerson admitted to reporters after the meeting. "We're not trying to characterize this as an activity that does not have risks."

However, Tillerson insisted that regulation of drilling activities should remain a state - and not federal - concern.

Pennsylvania's new Republican governor has essentially handcuffed state regulators in favor of drilling companies. New York currently has a moratorium in place on horizontal fracking until July.

Both states sit on the Marcellus Shale formation, which is estimated to hold enough natural gas to support domestic needs for several decades.

Exxon made a big play for that resource when it purchased XTO Energy for $35 billion in 2010, so the company is not likely to back down anytime soon.

But the federal government is finally exploring the issue. The Environmental Protection Agency (EPA) is studying the use and effects of hydraulic fracturing chemicals. Two critical issues - toxic chemicals used in fracking fluid and the disposal of wastewater - have the most potential to limit expansion of this practice.

"As the use of hydraulic fracturing skyrockets, communities, regulators, and investors are growing increasingly concerned about the environmental impacts of this process," says Jon Jensen of the Park Foundation in Ithaca, N.Y. and one of the co-filers of the ExxonMobil resolution. "Shareholders need assurance that companies are candidly disclosing these risks and are adopting best management practices to minimize them."

The resolutions received strong support from mainstream institutional investors. Both ISS and Glass Lewis, the two largest proxy advisory services in the country, supported the resolutions at Chevron; ISS also supported the Exxon resolution. The New York State Common Retirement Fund, the second largest pension fund in the country, also voted for the resolutions.

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