Fracking Should Benefit From Shareholders' Attention

David Lee Smith| June 3, 2011

It doesn't require a triple-digit IQ to identify the April 2010 tragedy aboard **Transocean**'s Deepwater Horizon rig as easily the most horrendous oil and gas environmental disaster in decades. And though you may think that exploration and production activity is slowly returning to normal in the Gulf, I'm unfortunately here to predict that yet another energy scuffle appears to be picking up steam in the U.S.

Earlier this year, my Foolish colleague Alyce Lomax described a nascent movement among shareholders of the major oil and gas companies that are using hydraulic fracturing -- or "fracking" -- to produce gas and oil from shale formations across much of the U.S. As you know, fracking involves drilling into the hard shale rocks that contain hydrocarbons, and then blasting millions of gallons of a mixture of water, sand, and chemicals into the well to break up the rock and release the trapped oil or gas.

The benefits and drawbacks
Fracking has resulted in a tremendous increase in the amount of available natural gas in our country, while significantly lowering the fuel's price, especially relative to oil. Concurrently, it has unleashed groups who contend that the process can contaminate groundwater and otherwise threaten areas surrounding the wells.

As a result, the annual meetings of the likes of **ExxonMobil**, **Chevron**, and **Ultra Petroleum**, have recently included votes on proposals entered by blocks of shareholders concerned about fracking's risks. While shareholders defeated the resolutions, which demanded more information on the potential risks from fracking, these proposals nevertheless generated support from meaningful percentages of the ballots cast.

Thanks to its $35 billion purchase of XTO, Exxon is now the nation's largest natural gas producer. The company saw 30% of its shareholders line up behind its fracking resolution. And Chevron, which last year entered the wide-ranging Marcellus shale through a far smaller $3 billion acquisition of Atlas Energy, saw fully 41% of its shareholders vote in favor of a fracking-related resolution. In April, a similar resolution at Alabama-based **Energen** came within a hair's breadth of passing, with 49.5% of its shareholders' votes falling into the positive column.

Tough to break 40%
As Michael Passoff -- a fracking specialist at As You Sow, a group that monitors corporate responsibility from its San Francisco base -- noted following the Chevron vote, "Breaking 40% on a first-year resolution has only happened a few times in the last few decades, so it shows how seriously the company's shareholders are taking this issue."

It appears that the million-dollar question regarding the degree to which companies will depend on fracking to continue to expand unconventional oil and gas output will now involve a number of factors that line up on both the positive and negative sides of the issue. For instance, the media has frequently sided with the anti-fracking camp. Indeed, *The New York Times* claims to have "reviewed 30,000 pages of documents obtained through open records requests of state and federal agencies and by visiting various regional offices that oversee drilling Pennsylvania. Some of the documents were leaked by state or federal officials."

Among its many conclusions, the paper states that:

> With hydrofracking, a well can produce over a million gallons of wastewater that is often laced with highly corrosive salts, carcinogens like benzene and radioactive elements like radium, all of which can occur naturally thousands of feet underground. Other carcinogenic materials can be added to the wastewater by the chemicals used in the hydrofracking itself.

Accidents during the process that can and will occur occasionally are also doing no favors for fracking's reputation. As an example, not long ago **Chesapeake Energy** lost control of a well that was being drilled in Pennsylvania's Bradford

County. While the company regained control of the well, the accident clearly did little to benefit sentiment toward fracking among those residing near the Marcellus shale.

Know your chemicals

One key to gaining wider acceptance for fracking lies in disclosure of the precise chemical composition of the fluids used in the process. As recently as Sunday night, the Texas House approved legislation that would require companies to disclose the chemicals used in their fracking processes -- a requirement that could be copied by the Environmental Protection Agency and other states.

Along with the legislation, **Halliburton** and other companies that manufacture fracking chemicals are endeavoring to produce fluids from thoroughly benign ingredients. Also among the efforts to cast a positive light on hydraulic fracturing, Exxon is in the midst of producing an advertising campaign that will defend natural gas drilling techniques. As the company's CEO Rex Tillerson noted recently, excessive regulation of fracking is detrimental to the development of gas fields that are "vital to America's economic success."

For my money, all of the companies above are striving to aid the all-important development of unconventional U.S. oil and gas fields through measures that will enhance the safety of hydraulic fracturing. Given its vital role in U.S. gas development and its international presence in oil discovery and production, I'm inclined to monitor ExxonMobil closely. You can, too, by adding it to your watchlist.

SOURCE: http://www.fool.com/investing/general/2011/06/03/fracking-should-benefit-from-shareholders-attentio.aspx