Shareholders Press for More Disclosure from Fracking Companies

Tina Casey | May 23rd, 2013

Image: Natural gas by kennymatic

For the fourth year in a row, a group of shareholders has organized to pressure oil and gas companies to disclose and address the risks of a drilling method called hydraulic fracturing, also known as fracking. The fracking risk disclosure movement has been gathering steam as the impacts of fracking are becoming evident in more communities, contributing to increased public awareness and greater demand for corporate reports that acknowledge and quantify risk factors including water contamination, local air pollution and greenhouse gas emissions.

The diverse group consists of the CSR nonprofit As You Sow, leading sustainable investment company Calvert Investments, investment advisory firm Green Century Capital Management, and the advocacy organization Investor Environmental Health Network along with socially responsible investors The Sisters of St. Francis of Philadelphia and New York City Comptroller John C. Liu.

Fracking risk disclosure: the good news and the bad

As explained by Nora Nash, director of Corporate Social Responsibility for the Sisters of St. Francis, the group has taken a straightforward bottom line approach from the investor's perspective:

"The water crises, public health concerns, lack of precise performance indicators and lack of public reporting continue to raise 'red flags' for all stakeholders. Companies must be accountable for their license to operate and must measure their performance, especially when it comes to the human rights of communities in which they operate."

Over the past four years, the group has coordinated 37 shareholder resolutions related to disclosure at 20 companies. This year's proposal actions focused on ExxonMobil, Chevron, Pioneer Resources, EOG Resources and Ultra Petroleum.

This year, the proposals were subsequently withdrawn from Ultra, Cabot and EOG, which agreed to update and report their plan for reducing emissions, conserving water, and managing the use of toxic chemicals.

That still leaves some heavy lifting by Chevron, ExxonMobil and Pioneer Natural Resources.

Chevron and ExxonMobil need no introduction, and if Pioneer Natural Resources is not a familiar name, it should be. The company bills itself as "one of the largest natural gas operators in the Rockies and Mid-Continent regions."

The trouble with fracking

If you've been hearing that natural gas is a "clean" fuel, the intensive focus on fracking may seem a little strange, so a brief review of the issues might be helpful for those of you who are new to the subject.

It is true that when burned by the end user, natural gas emits significantly less greenhouse gases than petroleum or

coal, and it also emits less particulate matter. However, two key pollution issues remain: lifecycle emissions of gases that affect global climate, and local impacts of the fracking operation itself.

Fracking lifecycle emissions

Methane is a far more potent greenhouse gas than carbon dioxide, so a firm grasp of lifecycle natural gas emissions is vital to understanding the relative impacts of it compared to other fossil fuels.

In the context of shareholder protests, it should not be surprising that ExxonMobil recently released a report on natural gas lifecycle emissions compared to coal that found a low rate of leakage from gas fields, which should give some reassurance to shareholders. However, ExxonMobil, which has already gained some notoriety for funding climate change denialists, appears to be hedging its petroleum bets by touting natural gas.

If you dig into the Exxon report, you'll see that its area of study is confined to particular gas fields that may not be representative of the national average. NOAA, for example, has already determined a methane leakage rate of about nine percent at certain gas fields, a rate that completely cancels out the advantage that natural gas has over coal when burned.

Local impacts of fracking

Fracking refers to a drilling method that involves pumping millions of gallons of chemical brine underground to jar natural gas from shale formations. It is also used in oil drilling, and it is by no means a new or particularly unusual technology. The problem is that until recently, its use has been mainly confined to thinly populated areas in the western U.S., where it attracted little if any attention when water contamination issues arose.

More recently, fracking has spread to heavily populated areas in Appalachia and the northeast, including Pennsylvania, New York and New Jersey, exposing far more people to actual and potential impacts. However, a 2005 disclosure exemption from the Clean Water Act has made it difficult if not impossible to link fracking operations directly to local impacts, enabling the industry to avoid stricter federal regulations.

Evidence of fracking impacts on local water resources is slowly mounting, though, as the Obama Administration has been pursuing the disclosure of ingredients in fracking brine, at least as far as the current regulatory structure enables its authority.

Aside from water contamination issues, fracking also impacts the availability of local water supplies to other industries, particularly agriculture. A report earlier this month from Ceres notes that a survey of 24,450 oil and gas wells in the U.S. showed that nearly half are already located in areas with "high and extremely high water stress."

The 2010 Jonathan Fox documentary "Gasland" exposed the nature of fracking impacts on local communities and last year's "Promised Land" movie introduced the topic to a broader audience, so public awareness is probably a little more intensive than it was in the past, but for the most part natural gas still enjoys its "clean" reputation.

That doesn't bode too well for the investor group's efforts to turn Chevron, ExxonMobil and Pioneer around this year, but the tide does seem to be turning in its favor.