

Shareholders Demand Some Fracking Answers

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The specter of BP's (NYSE: [BP](#)) Deepwater Horizon disaster last year, and the subsequent oil spill in the Gulf of Mexico, hasn't been put to rest. This year, shareholders are tightening the screws on major oil and gas companies regarding the controversial and possibly harmful practice of hydraulic fracturing, popularly known as "fracking."

Fracking involves drilling into shale rock formations that may be rich with pockets of hard-to-access oil or gas, then blasting water and other materials into the hole to break up the bedrock and make the fossil fuels within easier to tap. Opponents of the practice charge that fracking can contaminate groundwater and soil with harmful chemicals or leaking pockets of explosive natural gas.

Now, a coordinated group of shareholders has filed a slew of resolutions at publicly traded companies that use fracking, demanding more disclosure on how these corporations plan to handle the risks associated with the practice. The Environmental Protection Agency is also assessing fracking-related risks, and New York State has halted its use.

Frack attack

New York State Comptroller Thomas DiNapoli, one of the leaders of the anti-fracking effort, contends:

Oil and gas firms are being too vague about how they will manage the environmental challenges resulting from fracking. The risks associated with unconventional shale gas extraction have the potential to negatively impact shareholder value. I urge companies working in this field to share their risk mitigation and management strategies with investors and the public.

A slew of socially responsible investors have filed resolutions related to fracking at many major oil companies; the Investors Environmental Health Network helped coordinate the push. Domini Social Investments filed a shareholder resolution at **Southwestern Energy** (NYSE: [SWN](#)). **As You Sow** targeted **ExxonMobil** (NYSE: [XOM](#)) and **Ultra Petroleum** (NYSE: [UPL](#)). The Sisters of St. Francis of Philadelphia took on **Chevron** (NYSE: [CVX](#)), while Trillium Asset Management set its sights on **Anadarko** (NYSE: [APC](#)).

Green ammo from the Gulf

Last year, the number of shareholder resolutions related to climate change surged by 40% from those filed in 2009. As 2010 unfolded, it wasn't too hard to predict that shareholder resolutions focused on environmental issues were destined to gain an even higher profile this year.

BP's recent troubles revealed just how unprepared that company was for a worst-case scenario, giving environmentally minded shareholders further ammunition to demand better risk management and planning. Last year, BP shareholders [shot down](#) activist investors fighting the controversial Sunrise oil sands development in Canada; they also defeated a proposal criticizing CEO Tony Hayward's sizeable compensation.

The fact that some BP shareholders had tried to draw attention to those issues created quite an ironic [foreshadowing](#) of future events; the Deepwater Horizon disaster struck just days after BP's annual meeting. Shareholders later noted the parallel risks of these risky technologies, and listen reasons to apply greater scrutiny. One argued: "As with oil sands, the technology for deepwater drilling has not caught up with the potential environmental impact. This disaster means socially responsible investors may well end up putting deepwater drilling in the same category as oil sands."

Tune in for resolutions about risk

All investors should pay attention to shareholder resolutions filed at the companies they own. Although some activist

shareholders may have self-serving or political agendas, shareholder resolutions often point out very real risks.

Last year, environmental research concern Trucost contended that environmental damage could endanger more than half of all corporate profits, with \$2.15 trillion in environmental costs coming from the world's top 3,000 companies every year.

Investors of all stripes should be aware that [hidden risks could add up to very real expenses](#) down the road. The coming proxy season should give investors serious risks to weigh. Stay tuned.