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Investor groups' resolutions on hydraulic fracturing 'hit a nerve'

By [Bryan Schutt](#)

A coalition of environmentally minded investors is [calling](#) on leading oil and gas companies to improve transparency related to hydraulic fracturing practices and adopt policies that will mitigate environmental risk and protect shareholder value.

Led by the Investor Environmental Health Network and Ceres, the investors said the risks associated with unconventional gas development bear financial implications, and they urged the companies to disclose their plans for managing water pollution, litigation and regulatory uncertainty. The investors filed [shareholder resolutions](#) with nine companies heavy into shale gas development, including [Exxon Mobil Corp.](#), [Chevron Corp.](#), [Cabot Oil & Gas Corp.](#), [El Paso Corp.](#) and [Southwestern Energy Co.](#)

Richard Liroff, executive director of IEHN, said he expected the resolutions to stir up the sector. Investors followed a similar tactic last year with filings during the 2010 proxy season that focused on chemical disclosure of fracking fluids, and those filings were met with striking results.

"Right out of the box, the votes last year got 21% to 42%," he said. "It clearly indicated that we'd hit a nerve."

Of those targeted last year, [Williams Cos. Inc.](#) later started disclosing its practices to ensure well integrity, describing its recycling practices, and discussing completion efforts that reduce greenhouse gas emissions and enhance profitability. [Range Resources Corp.](#) reported that its recycling efforts in the Marcellus Shale saved the company about \$200,000 per well, and Hess said it was working with suppliers to reduce the toxicity of fracking fluids.

This year, knowing there was [movement](#) on disclosure, the investors re-emphasized the need to mitigate the risks associated with the entire life cycle of fracturing operations. And with organizations such as [Massachusetts Institute of Technology](#) and Tudor Pickering Holt & Co. [reaffirming](#) their call for transparency, Liroff hoped targeted companies would take action.

"This is about actual adoption of practices," he said. "We want companies to talk about what they're doing and show us that they are taking water recycling seriously, taking reduction of air pollution seriously, and taking well integrity seriously."

Michael Passoff, senior program director at [As You Sow](#), said he hoped the companies would take more substantial measures to improve.

"It remains to be seen if Exxon and everyone else are just trying to redefine the problem in more of a public relations way, or if they are really trying to address the problem," he said. "I think right now they are mostly coming out with PR sound bites."

He said shareholders can be duped, which is part of the problem, and so he called on companies to acknowledge the risk in their Forms 10-K. "You're seeing some real movement by the states and other entities to reduce fracking. If you are an investor, that's your risk. You're getting bad press, starting to see lawsuits, companies are being fined and states are not allowing companies to frack. Those are all risks to investors," he said. "More disclosure about what they're doing would make everyone feel better. Investors and the public alike would accept that it will take time to transition to less toxic chemicals or better practices if they knew that that was coming."

As You Sow is a group that works to increase corporate accountability. It has filed resolutions with Exxon, [Ultra Petroleum Corp.](#), [Anadarko Petroleum Corp.](#) and Chevron, and also is working with Range.

Looking at companies such as Range that are saving money through better practices, Liroff noted that environmental practices are not always at odds with saving money. Had companies been monitoring water quality in areas before they drilled, many allegations and lawsuits in Pennsylvania could have been averted. Similarly, if companies are recycling water, they reduce transportation costs as well as water costs.

"It gets tiresome ... to hear folks make so many issues environment versus economy," he said. "The reality is, so many of the practices we're talking about really make good business sense."

Investors who filed the resolutions include the New York State Comptroller, Domini Social Investments, **As You Sow**, Trillium Asset Management, Miller/Howard Investments and the Sisters of St. Francis of Philadelphia.

Among those investors, New York State Comptroller Thomas DiNapoli called out industry firms for being too vague when it comes to the environmental issues associated with fracking, and his office filed a resolution with Cabot Oil & Gas asking for a specific plan to reduce or eliminate the hazards. Likewise, Kristina Curtis, senior vice president at Green Century Capital Management, which coordinated the resolutions with IEHN, said it is critical for shareholders to understand and address the business risks associated with unconventional drilling.

If successful, the country would have more confidence in its domestic abundance of natural gas and enable regulators to rely on its cleaner-burning properties to reduce greenhouse gas emissions, investors said.

"Natural gas can play a major role in meeting our nation's near-term climate and energy challenges, but hydraulic fracturing must be done in a way that protects the environment and public health," said Mindy Lubber, president of Ceres and director of the \$9 trillion Investor Network on Climate Risk. "Investors believe that companies can profitably minimize fracking's water contamination, gas leaks and other material risks by adopting best management practices and by phasing out the most toxic chemicals."

Liroff compared the hydraulic fracturing resolutions to shareholder activists' first efforts to convince companies that climate risk posed business implications.

"If one looks at the history on shareholder engagement [and climate issues] ... it probably goes back about 10 years and it took a while to get going," he said. "The difference ... is that you don't customarily get 20% to 40% votes out of the box. We did."