

Shareholder Pressure on Hydraulic Fracturing Intensifies

Robert Kropp | May 31, 2011

Resolutions addressing the issue at Chevron and ExxonMobil, co-filed by As You Sow and other sustainable investors, win substantial shareowner support, and Ultra Petroleum declines to release results of vote at its annual meeting.

SocialFunds.com -- Resolutions addressing hydraulic fracturing won substantial shareowner support at the annual meetings of major oil and gas companies last week. The resolutions, which call for increased transparency and risk management in an increasingly widespread drilling practice that has raised serious environmental concerns, gained 41% of the votes of shareowners at Chevron and 28% at ExxonMobil.

The results of a vote on the practice at Ultra Petroleum, where a similar resolution won 10% of shareowner votes last year, has not yet been released by the company. This year, the resolution at Ultra was supported by Glass Lewis, a major proxy advisory service.

The process of hydraulic fracturing, or fracking, requires the injection of as much as 7.5 million gallons of water per well, as well as often toxic chemicals, to crack open rock and allow natural gas to flow to the surface. According to a press release issued after the votes by As You Sow, a co-filer of the resolutions at the three companies, "Thousands of documents obtained from the Environmental Protection Agency (EPA) have revealed that the threats of fracking to the environment and public health are greater than anticipated. The two critical issues—toxic chemicals used in fracking fluid and the disposal of wastewater—have the most potential to limit expansion of this practice."

Despite the environmental and health risks, the American Petroleum Institute (API), an industry trade group, has estimated that as much as 80% of natural gas wells drilled in the next decade will require hydraulic fracturing.

"Shareholders are concerned that these potential environmental and health impacts will result in regulatory, legal, financial, and reputational risks to the companies and want to know how the companies intend to mitigate the risks associated with fracking," the release continued.

Following the annual meeting of ExxonMobil, CEO Rex Tillerson addressed the proposal, which had been co-filed by As You Sow and the Unitarian Universalist Service Committee, telling reporters, "We know there are risks. We're not trying to characterize this as an activity that does not have risks."

However, Tillerson continued, "We think there have been a lot of pretty casual statements about risks that are simply not backed up by facts. The early detractors slap a label on something, and then it takes us a long time to get it peeled off."

While Tillerson did not describe who those detractors might be, EPA announced in 2010 that it would conduct a new scientific study of the effects of hydraulic fracturing, and sent letters to nine natural gas service companies, "seeking information on the chemical composition of fluids used in the hydraulic fracturing process, data on the impacts of the chemicals on human health and the environment, standard operating procedures at their hydraulic fracturing sites and the locations of sites where fracturing has been conducted."

At Chevron, where the resolution was co-filed by As You Sow and members of the Interfaith Center on Corporate Responsibility (ICCR), the shareowner vote was "an exceptionally high level of support for a first-year resolution," Michael Passoff of As You Sow said. "The fact that 41% of Chevron investors voted in favor of more disclosure shows how seriously the company's shareholders are taking this issue."

According to Larisa Ruoff of Green Century Capital Management, co-filer of the resolution at Ultra Petroleum, the company declined to announce the results of the vote and, for the second year, refused shareholders their right to speak on behalf of the resolution.