

Sustainability Investment News

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Environmental Resolutions Continue to Gain Strong Shareowner Support

by Robert Kropp

Resolutions requesting better disclosure of hydraulic fracturing win substantial support at two oil and gas companies.

SocialFunds.com -- Environmental resolutions have found a welcome among shareowners at the annual general meetings of corporations this proxy season. Last month, a first-time resolution filed by As You Sow, requesting that MDU Resources report on the company's efforts to reduce environmental and health hazards associated with coal ash practices, won 25.6% of shareowners' votes. The result was considerably more than is required by the SEC for As You Sow to submit the proposal again next year.

At last week's meetings of Cabot Oil and Gas and EOG Resources, this year's trend of substantial shareowner support for environmental resolutions continued, as first-time requests for improved corporate disclosure of the risks associated with the practice by oil and gas companies of hydraulic fracturing won 36 and 31 percent of votes, respectively.

Efforts by both companies to keep the resolutions off their proxy ballots were rejected by the Securities and Exchange Commission (SEC).

Hydraulic fracturing is used by oil and natural gas companies to extract reserves from pockets underground. The process requires the injection under high pressure of as much as 7.5 million gallons of water per well, as well as toxic chemicals, to crack open rock and allow the natural gas to flow to the surface. Because the pressure of the injected fluid exceeds the rock strength, the fluid opens or enlarges fractures in the rock. The fractures extend as much as several hundred feet into the reservoir rock.

Addressing the composition of the chemicals used in the hydraulic fracturing process, a November 2009 report by the Environment America Research and Policy Center, companies rarely disclose the chemical make-up of the fluids used in the process. However, the report stated, "The available information from state-required or voluntary disclosures paints a very troubling picture of the toxicity of these chemicals."

Reversing a Bush administration-era conclusion that "the injection of hydraulic fracturing fluids...posed little or no threat to underground source of drinking water (USDWs) and

additional studies were not justified,” the Environmental Protection Agency (EPA) announced in April the launch of a research study into the relationship between hydraulic fracturing and drinking water resources. The EPA study is being undertaken in response to a request from the US House of Representatives Appropriation Conference Committee.

The resolutions at Cabot Oil and Gas and EOG Resources, the filing of which were coordinated by Green Century Capital Management and the Investor Environmental Health Network (IEHN), observed that “an estimated 60-80% of natural gas wells drilled in the next decade will require hydraulic fracturing.”

The resolution continued, “Emerging technologies to track chemical signatures from drilling activities increase the potential for reputational damage and vulnerability to litigation,” and that “uneven regulatory controls and reported contamination incidents compel companies to protect their long-term financial interests by taking measures beyond regulatory requirements to reduce environmental hazards.”

According to a fact sheet compiled by IEHN, investor concerns over hydraulic concerns include an absence of meaningful disclosure by companies engaged in the practice, financial risk due to potential new regulation and environmental contamination by fracturing fluids, and the reputational risk to companies of increased media attention to the practice.

Richard Liroff, Executive Director of IEHN, said, “All companies that employ the process face substantial business risks. These can be reduced through adoption of precautionary best management practices.”

“In the absence of meaningful disclosure, investors have no way of fully assessing the risks and rewards from investing in various companies in the energy sector,” Larisa Ruoff, Director of Shareholder Advocacy for Green Century Capital Management, said.

According to IEHN, shareowner resolutions addressing hydraulic fracturing will be voted on at forthcoming meetings at Chesapeake Energy, ExxonMobil, Williams Companies, and Ultra Petroleum. Overall, shareowner resolutions requesting increased transparency have been filed with 12 companies. Shareowner activists have engaged with about 20 companies on the issue.

In addition to the coordinators, investors and investor advisors engaging with the 20 companies include As You Sow, Catholic Health East, Catholic Healthcare West, First Affirmative Financial Network, MMA Praxis Mutual Funds, the Mercy Investment Program, Miller/Howard Investments, the New York State Common Retirement Fund, Pax World, the Shareholder Association for Research & Education, the Sisters of St. Francis of Philadelphia, the Sustainability Group, and Trillium Asset Management.