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Fracas erupts over 'fracking' practices

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Despite the best intentions of energy icon T. Boone Pickens and regardless of the controversy over deepwater exploration in the Gulf of Mexico, onshore natural gas operations in the United States face a serious and distracting problem.



Hydraulic fracturing — the now common industry process of injecting water and chemicals into reservoirs to fracture rock and free up gas and oil — is in the cross hairs of shareholders and environmental groups, and is drawing scrutiny from Congress, which is considering increased regulation.

Shareholder groups filed proposals this year affecting a dozen companies involved in hydraulic fracturing, or “fracking,” in which they requested more disclosure on risks. The response votes were very favorable, the groups say.

Of 12 proposals filed, six went to a shareholder proxy vote and were supported by between 21 percent and 42 percent of shareholders.

“We are pleased with the kind of votes we received at the proxy season,” says Larisa Ruoff of Green Century Capitol Management, a Boston investment advisory firm focused on environmentally responsible investing. “With the resolution that went to a vote, we’re pleased with the amount of shareholder support for a first-year environmental proposal. In general, most of the votes were incredibly strong.”

The six companies that went to a vote include Williams Cos. Inc. (42 percent support), Cabot Oil & Gas Corp. (36 percent), EOG Resources Inc. (31 percent), Exxon Mobil Corp. (26 percent), Chesapeake Energy Corp. (25 percent) and Ultra Petroleum Corp. (21 percent). The support for those proposals was 7 to 14 times the percentage of votes required by the Securities and Exchange Commission to refile the proposals next year.

Proposals filed with Hess Corp., Range Resources Corp. and El Paso Corp. were withdrawn because of corporate commitments to increase disclosure.

“Those companies agreed to increase their disclosure,” says Ruoff.

Two other proposals at EQT Corp. and Energen Corp. were excluded on technicalities, and another submitted to XTO Energy Inc. was negated after that company was acquired by Exxon Mobil. Some of the companies unsuccessfully tried to challenge the proposals with the SEC.

More transparency

Still, Ruoff points out that the proposals and the groups behind them are not necessarily against hydraulic fracturing. They just want more transparency in providing related information, to prevent a loss in stockholder value along the lines of what has happened to BP Plc shares after the Gulf spill.

“We want to make sure there is the disclosure that we need,” she says. “Without that, we just can’t make informed decisions.”

Green Century was not the only group that filed proposals. The Investor Environmental Health Network, a partnership of investment managers and nongovernmental organizations concerned about financial and public health risks, and **As You Sow, a nonprofit dedicated to promoting corporate social responsibility, filed or assisted on some proposals.**

“As investors we are concerned about the fact that we don’t believe the companies are providing sufficient information in key business risks,” Ruoff says. “It’s impossible for investors to know if they’re appropriately managing those associated risks.”

The focus on fracking comes just as the natural gas industry has hit a rough patch.

After the severity of the Deepwater Horizon disaster had set in, a handful of recent high-profile accidents at natural gas wells and at a Texas gas pipeline caused one death, several injuries and brought more scrutiny on a sector being championed by Pickens and others to leap to the forefront of domestic energy.

Couple those incidents with two newly released documentary films — including “Haynesville,” about the economic and environmental factors at play in northern Louisiana, and “GasLand,” a decidedly pro-environmental film about the effects of fracking on groundwater — and natural gas was ripe to be targeted by Green Century and others.

“Basically it centers on two central concepts key to investors — disclosure and mitigation of risks,” Ruoff says. “Resolution asks for a report summarizing the environmental impact of operations and discussion on potential policies companies could adopt above regulatory requirements. We have been encouraging all companies involved to acknowledge that there is public concern about the hazards of hydraulic fracturing and to improve the mechanisms to disclose the chemicals used while still preserving proprietary information.”

In “GasLand,” filmmaker Josh Fox is pushing the idea that hydraulic fracturing should again be placed under the Safe Drinking Water Act, from which it was exempted five years ago as part of then-Vice President Dick Cheney’s Energy Policy Act of 2005.

Environmental impact

Outspoken Houston energy guru Matt Simmons, founder and former chairman and CEO of Simmons & Co. International, says the effects on fracking as a result of that move would be profound.

“It’s going to be over very quick,” he suggests. “I think the EPA is going to rule very quickly that ‘frac’ water is carcinogenic. They have to put it back under the (Safe Drinking Water Act). Everyone in the industry says when that happens, it’s over.”