

# Marc Gunther

## Shareholders say: Tell the truth about fracking



No form of energy—not solar, wind, hydropower, obviously not coal or oil—comes without environmental tradeoffs.

One promising new energy source—a vast supplies of natural gas, trapped in shale deep beneath the earth’s surface—is getting renewed scrutiny these days, and for good reason.

While natural gas is often called a “bridge” to a clean energy future, critics are **bombing the bridge with a frack attack**, says energy policy analyst Kevin Book of Clearview Energy Partners.

Book was referring to the drumbeat of questions being raised by environmentalists, community activists, reporters and members of Congress about **hydraulic fracturing**, or fracking, a process during which water, chemicals and sand are pumped underground at high pressure to cause tiny fissures in rock and force natural gas to the surface.

In the weeks ahead, new pressures will come from activist shareholders of a dozen energy companies. They’ve filed shareholder resolutions asking the companies to take a hard look at fracking and its risk, and they will raise the issue at annual shareholder meetings.

“Investors support natural gas drilling, but we want to make sure that it’s done right,” said Richard Liroff, executive director of the [Investor Environmental Health Network](#), a group of investors and NGOs who focus on the financial and public health risks associated with corporate use of toxic chemicals. “What we are pushing companies to do is to implement the best management practices.”

In a [news release](#) announcing their campaign, the investors say:

Investors and investor advisors including [As You Sow](#), Green Century Capital Management, Miller/Howard Investments, Catholic Healthcare West, First Affirmative Financial Network, the Mercy Investment Program, the New York State Common Retirement Fund, the Shareholder Association for Research & Education, Pax World Management, the Sisters of St. Francis of Philadelphia, the Sustainability Group, and Trillium Asset Management have begun to engage approximately 20 companies, and have filed shareholder resolutions with 12 companies including Cabot Oil & Gas Corporation (COG), Chesapeake Energy (CHK), ExxonMobil (XOM), Hess Corporation (HES), EOG Resources (EOG), and Range Resources (RRC) over these risks.

What's the problem with fracking? The process, which uses millions of gallons of water and unknown chemicals, has been linked to a range of health and environmental problems, including [contaminated drinking water in Pennsylvania](#), [a massive fish kill](#) in a creek along the border between Pennsylvania and West Virginia and a chemical spill that killed cows in Shreveport, Louisiana, as [the Wall Street Journal has reported](#).

If you want to know more, let me recommend an excellent [series of prize-winning stories](#) published by the investigative news site, Pro Publica, and written by Abraham Lustgarten, a former colleague of mine at FORTUNE. Abraham has spent more than a year investigating hydraulic fracturing. While the industry insists that gas drilling is safe, he writes that:

...the issues are far less settled than the industry contends, and that hidden environmental costs could cut deeply into the anticipated benefits.

For example, it remains unclear how far the tiny fissures that radiate through the bedrock from hydraulic fracturing might reach, or whether they can connect underground passageways or open cracks into groundwater aquifers that could allow the chemical solution to escape into drinking water. It is not certain that the chemicals – some, such as benzene, that are known to cause cancer – are adequately contained by either the well structure beneath the earth or by the people, pipelines and trucks that handle it on the surface. [And it is unclear how the voluminous waste the process creates can be disposed of safely](#) .

“This is a field where there is almost no research,” said Geoffrey Thyne, a former professor at the Colorado School of Mines and an environmental engineering consultant for local government officials in Colorado. “It is very much an emerging problem.”

The natural gas industry's response to the allegations hasn't helped its cause. EOG Resources and Cabot Oil & Gas both went to the SEC, asking that the shareholder resolutions be taken off the ballot. That failed. Chesapeake Energy has also challenged the resolution.

Worse, companies refuse to disclose the chemicals used in the fracking process, calling them trade secrets. The 2005 energy bill, spearheaded by then-Vice President Dick Cheney, [exempted natural gas drilling](#) from disclosure requirements of federal clean

water laws. Critics call that the “Halliburton exception” because Halliburton, the company where Cheney was once CEO, helped pioneer fracking.

Last month, Congressman Henry Waxman [asked eight oil and gas companies](#) that use fracking to provide information about the chemicals they use.

The IEHN’s Rich Liroff says owners of the companies can’t get the information they need to assess risk:

This is a sector-wide problem. There is virtually no meaningful disclosure from any of the companies about what safeguards they are employing and what efforts they are making to implement best management practices.

If you are an investor who wants to invest in the natural gas sector, and figure out what the risks are and the rewards are for any individual company, you just don’t have enough information to make an informed judgment.

Larissa Ruoff, director of shareholder advocacy at Green Century Funds and a leader of the investor coalition, is also calling for more transparency and engagement from the companies.

An industry website, [Energy in Depth](#), says the concerns of critics are overblown. It notes that fracking is now responsible for about 30% of the U.S.’s domestic oil and natural gas, and that 60 to 80% of wells drilled in the U.S. in the next decade will require fracturing. As for the safety issues, the industry says:

Hydraulic fracturing is a safe, well-regulated, environmentally sound practice that has been employed over one million times without a single incidence of drinking water contamination.

If that’s so, why fight the critics? Why not engage with them?

As Gil Friend, the CEO of a consulting firm called Natural Logic, writes in his 2009 book, [The Truth About Green Business](#):

Your business can wait to be dragged, kicking and screaming...or it can lead the way.... If you’re constantly reacting, you risk losing market share to innovators, while you’re spending more time and resources adjusting. Being reactive is no way to run a successful business.

Smart companies will be open about their practices and get ahead of this controversy before it gets out of control—unless they really do have something to hide.