

ANALYSIS-Investors urge safeguards on US shale gas drilling



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* Twelve companies face shareholder calls for protection

* Study finds some companies much more open than others

By Jon Hurdle

PHILADELPHIA (Reuters) - Concern about the safety of drilling for natural gas in shale formations is leading investors to demand assurances from energy companies and prompting state lawmakers to call for tighter restrictions on the booming industry.

A new study found 12 energy companies faced shareholder resolutions this spring calling for better safeguards against environmental damage from hydraulic fracturing, a drilling technique that critics say contaminates ground water.

Meanwhile, some local legislators are urging stricter regulation after reports that hydraulic fracturing, also known as "fracking," has caused undrinkable water, human sickness and even animal fatalities.

Companies vigorously dispute the environmental criticism, saying the evidence has failed to show a link between fracking and health.

But some shareholders are concerned enough to ask companies to go beyond the standards required by regulators in safeguarding air, water and soil quality.

In the 12 cases, investors representing a range from 21 percent to 42 percent of shares have backed pro-environmental resolutions, up from a historic norm of 5 percent to 7 percent, according to Green Century Capital Management, a pro-environmental investment fund.

"Investors believe that companies that employ these processes face substantial business risk," said Larisa Ruoff, director of shareholder advocacy for Green Century.

The New York State Common Retirement Fund, the third-largest U.S. public pension fund with assets of \$132.6 billion as of March 31, backed such measures at Range Resources, Exxon Mobil and Hess Corp., companies in which it owns stock.

"We want to make sure that the companies we are investing in are taking full notice of the environmental impact of their operations," said Robert Whalen, a spokesman for the fund.

Some oil and gas industry analysts discard the criticism, calling the health concerns overblown.

"It would not be in the best interests of shareholders to restrict themselves from hydraulic fracturing," said Nicholas Pope, an analyst with Dahlman Rose & Co.

BP SPILL RAISES AWARENESS

Demand for tighter environmental controls is rising with public outrage over the BP oil disaster in the Gulf of Mexico, said Michael Passoff of As You Sow, a corporate responsibility nonprofit group that contributed to the study.

BP shares have lost more than half of their value since the spill began two months ago.

"Investors are starting to recognize that environmental risk poses real financial liabilities," Passoff said.

Four of the 12 resolutions were withdrawn after those companies agreed to increase transparency over fracking.

Range Resources, a Texas-based gas driller active in southwest Pennsylvania, agreed to provide additional fracking information on its website.

But Exxon Mobil Corp. -- which last year placed a big bet on shale gas with a \$30 billion agreement to buy XTO Energy Inc -- declined to meet the investors' demands for a special report on fracking, said Passoff, whose organization filed the Exxon resolution.

Exxon urged shareholders to vote against the proposal, arguing that fracking was highly regulated and less damaging to the environment than conventional drilling because it requires fewer wells to be drilled.

Investors representing 26 percent of Exxon shares voted for it.

At Cabot Oil & Gas Corp. 36 percent of shareholder capital voted for a resolution from the New York State Common Retirement Fund calling on the board to report on the company's fracking operations and recommend measures to "reduce or eliminate" threats to water, air or soil quality.

At EOG Resources Inc., operator of a central Pennsylvania gas well that blew out on June 3, some 31 percent of shareholders backed a resolution filed by Green Century.

EOG's board in March urged shareholders to vote against the resolution, saying their requested report would "serve no useful purpose" because there had been no verified incidents of ground water contamination from fracking by EOG or other companies in the 60 years the technique has been used.

Public worries about fracking have also led to legislation to prevent pollution from gas rigs. In Pennsylvania, at the center of the massive Marcellus Shale gas development, a bill introduced on June 23 would impose a one-year moratorium on new drilling to allow time for a study of the industry's impact.

The Pennsylvania legislature is also considering bills that would require energy companies to disclose fracking chemicals and block new gas drilling in forests pending further study.

But stricter regulation alone may not placate shareholders such as the Park Foundation, owner of about 17,000 Exxon Mobil shares, where managers fear their investments will be hurt if the company's gas extraction is found to be contaminating ground water.

"Hydraulic fracturing is a significant environmental and health threat," said the foundation's executive director Jon Jensen, who backed the Exxon resolution. "All you have to do is look at the Gulf of Mexico disaster to see where someone's stock can go." (Reporting by Jon Hurdle; Editing by Daniel Trotta, Dave Zimmerman)