2014

# DISCLOSING THE FACTS:

## TRANSPARENCY AND RISK IN HYDRAULIC FRACTURING

A COLLABORATIVE PROJECT OF:

AS YOU SOW®

BOSTON COMMON ASSET MANAGEMENT

GREEN CENTURY

Investor Environmental Health Network
HEALTHY PEOPLE...HEALTHY BUSINESS

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# COLLABORATING ORGANIZATIONS

**AS YOU SOW** promotes environmental and social corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. Its efforts create large-scale systemic change by establishing sustainable and equitable corporate practices.

**BOSTON COMMON ASSET MANAGEMENT, LLC** is an investment manager and a leader in global sustainability initiatives. It specializes in long-only equity and balanced strategies and pursues long-term capital appreciation by seeking to invest in diversified portfolios of high quality, socially responsible stocks. Through rigorous analysis of financial and environmental, social, and governance (ESG) factors, it identifies what it believes are attractively valued companies for investment. As shareholders, Boston Common urges portfolio companies to improve transparency, accountability, and attention to ESG issues.

**GREEN CENTURY CAPITAL MANAGEMENT, INC.** is a investment advisory firm that manages the first family of diversified and responsible fossil fuel free mutual funds. Founded in 1991 by a network of non-profit organizations, Green Century leverages the power of its investments to convince companies to reduce pollution and mobilizes other investors around national energy and climate change policies. http://greencentury.com/

**THE INVESTOR ENVIRONMENTAL HEALTH NETWORK** (IEHN) is a collaborative partnership of investment managers and advisors concerned about the impact of corporate practices on environmental health.

# ACKNOWLEDGEMENTS

This report was made possible by the generous support of (in alphabetical order): Broad Reach Fund, The Campbell Foundation, Educational Foundation of America, Firedoll Foundation, Marisla Foundation, Park Foundation, Roddenberry Foundation, and the V. Kann Rasmussen Foundation. Additional support was provided by the Arntz Family Foundation, Fred Gellert Family Foundation, The Libra Foundation, and New Belgium Foundation.

This report has benefited from the suggestions of outside reviewers. They include (in alphabetical order by last name with affiliations for identification purposes only): Monika Freyman, Ceres; Amy Mall, Natural Resources Defense Council; Sister Nora Nash, Sisters of St. Francis of Philadelphia; Dana Sasarean, MSCI; and Susan Williams, Sustainable Investments Institute. Thanks also to the additional professionals from industry and other sectors who provided reviews. Any errors or omissions are solely the responsibility of the authors.

Special thanks to Sanford Lewis (IEHN counsel) for legal review.

We would also like to thank Robert Pears, David Shugar, Alina Tomeh, Tze Wei U, and Austin Wilson for their research support, Leah Turino for copy editing, and Andrew Montes for other support.

# DISCLAIMER



COVER CREDIT: WV Host Farms Program

# EXECUTIVE SUMMARY

*Disclosing the Facts 2014* is the third in a series of investor reports intended to promote improved operational practices among oil and gas companies engaged in horizontal drilling and hydraulic fracturing. Hydraulic fracturing operations use high volumes of water and toxic chemicals, release significant levels of greenhouse gas and other emissions, and have the potential to adversely impact local communities when not properly managed. These issues may translate into financial risks to companies and shareholders in the form of fines, regulations, resource constraints, or threats to their social license to operate. Following the maxim of "what gets measured, gets managed", this report encourages oil and gas companies to increase disclosures about their use of current best practices to minimize the environmental risks and community impacts of their "fracking" activities. Disclosure of best management practices and associated key performance indicators is the primary means by which investors may gauge how companies are managing the business risks associated with their environmental and community impacts.

This 2014 scorecard benchmarks the public disclosures of 30 oil and gas companies on 35 key performance indicators. It serves to distinguish companies disclosing more about their practices and impacts from those disclosing less. The scorecard assesses five areas of environmental, social, and governance metrics emphasizing, on a play-by-play basis, quantitative disclosures for: (1) toxic chemicals; (2) water and waste management; (3) air emissions; (4) community impacts; and (5) management accountability.[1] It relies solely on publicly available information companies provide on their websites or in financial statements or other reports linked from their websites.

As was the case with the 2013 scorecard, the results of this year's scorecard demonstrate a widespread industry trend of underperformance in disclosing key performance metrics. Across the board, companies are failing to provide investors and the public with sufficient quantitative information to understand and compare the risks and opportunities presented by these companies' shale play operations.

Although industry-wide performance continues to lag investor expectations, several companies have significantly improved their disclosures over the past year. This change is consistent with continued investor, public, and regulatory scrutiny of hydraulic fracturing activities as well as a broader pattern of innovation within the industry, where companies deploy better practices and other companies follow in what we hope is a "race to the top" for best performance. Investors plan to continue pressing companies to adopt effective practices for managing risks and impacts, and thus capturing the full value of their hydraulic fracturing operations.

## KEY FINDINGS

1. **Failure to quantitatively disclose key performance metrics remains the industry-wide standard.** Across the industry, companies are failing to provide investors and other key stakeholders with quantitative, play-by-play disclosure of operational impacts and best management practices. Existing company disclosures remain mostly qualitative and narrative, or focus anecdotally on just one or a few of their multiple plays, making systematic comparisons across companies difficult.

2. **A small group of companies has dramatically improved disclosure.** BHP Billiton emerged as the highest scoring company this year. BHP Billiton is the first company to score points on more than half of the report's indicators, rising from near the bottom of 2013's rankings to the top this year. Hess, the second-highest scorer, doubled its score from 2013 and EQT, the third-ranked company, tripled its score. Finally, Noble Energy nearly doubled its score to tie for fifth in this year's rankings. These four companies accounted for approximately two-thirds of the total overall improvement in industry scores. Encana and Apache, leaders in 2013, round out the top 20% of this year's industry leaders. Encana ranked fourth and Apache tied for fifth. Most other companies changed their scores only marginally or not at all.

1. "Play-by-play" disclosure refers to a company reporting the distinct operational practices and impacts that are occurring at each play in which a company is operating, as distinct from reporting at an aggregate level such as company- or country-wide.

3. **Broad policies, not play-by-play quantitative performance metrics, are the most commonly reported indicators.** The scorecard includes a mix of quantitative indicators and non-quantitative best practice indicators. The five most commonly reported indicators are policies to: substitute pipelines for trucks to reduce traffic and emissions (20 companies); use non-potable water sources (e.g., treatment plant effluent and briny subsurface waters) where possible instead of fresh water (18 companies); use health, environment, and safety (HES) metrics in setting executive compensation (18 companies); use infrared cameras to some degree in detecting air contaminant leaks (16 companies); and, avoid use of diesel fuel in fracturing fluids (14 companies).

4. **Companies still fail to disclose comprehensive systems for identifying community concerns and corporate responses.** Although the number of companies that scored any points in this category increased to 13 from a mere six in 2013, companies continue to score worst on their disclosed policies and practices to address the community impacts of their operations. Companies primarily improved disclosure regarding traffic congestion and management systems for tracking community concerns. Still largely absent, however, are discussions by companies of which impacts are of greatest concern in the communities in which they are operating, and the companies' specific practices to address those concerns.

### CORE RECOMMENDATION: COMPANIES SHOULD INCREASE QUANTITATIVE REPORTING

As stated in our previous assessments, narrative reporting—anecdotal reporting of activities in one or two plays—and aggregated company-wide reporting of impacts on a national or company-wide level, do not sufficiently inform investors about how effectively companies are managing the risks and opportunities associated with their operations. Companies should report data associated with their operational impacts using quantitative metrics, on a play-by-play basis, in order for investors to be able to rigorously assess company practices.

## SCORECARD

(Out Of 35 Possible Points**)

| COMPANY | 2014 SCORE | 2013 SCORE |
|---|---|---|
| BHP Billiton Ltd. | 18 | 2 |
| Hess Corp. | 17 | 8 |
| EQT Corp. | 16 | 5 |
| Encana Corp. | 15 | 14 |
| Apache Corp. | 13 | 10 |
| Noble Energy, Inc. | 13 | 7 |
| EOG Resources, Inc. | 9 | 6 |
| *Penn Virginia Corp.* | 9 | – |
| Range Resources Corp. | 9 | 3 |
| Royal Dutch Shell plc | 9 | 7 |
| Ultra Petroleum Corp. | 9* | 10 |
| Cabot Oil & Gas Corp. | 8 | 5 |
| Anadarko Petroleum Corp. | 7 | 4 |
| Chesapeake Energy Corp. | 7 | 5 |
| *Exco Resources, Inc.* | 7 | – |
| Occidental Petroleum Corp. | 7 | 2 |
| BP plc | 6 | 2 |
| Chevron Corp. | 6 | 3 |
| ConocoPhillips Corp. | 5 | 5 |
| CONSOL Energy, Inc. | 5 | 5 |
| Devon Energy Corp. | 5 | 4 |
| Exxon Mobil Corp. | 5 | 2 |
| *Newfield Exploration Co.* | 4 | – |
| Talisman Energy, Inc. | 4 | 3 |
| WPX Energy, Inc. | 3 | 3 |
| *Whiting Petroleum Corp.* | 3 | – |
| Southwestern Energy Co. | 2 | 2 |
| QEP Resources, Inc. | 1 | 1 |
| *Carrizo Oil & Gas, Inc.* | 0 | – |
| *Continental Resources, Inc.* | 0 | – |

Italicized companies were not included in *Disclosing the Facts 2013* and so have no 2013 score.

* In 2013, Ultra was active in a single play only. In 2014, Ultra is a multi-play company. Its lower score in 2014 indicates a failure to expand its reporting to reflect its increased activity.

** 2013 had a total of 32 possible points.

## CONCLUSION

As evidenced by continuing controversy around shale energy development in Colorado, California, New York, Eastern Canada, and elsewhere, oil and gas companies have still not managed to allay public concerns about the risks associated with their operations and continue to face potential loss of their social license to operate. We believe companies implementing current best practices in operations and providing thoroughly transparent information about these efforts will: enhance the likelihood of securing and maintaining their social license to operate; reduce regulatory and reputational risks; and reduce liabilities associated with poor performance, spills, contamination, and lawsuits, thereby increasing their access to capital.

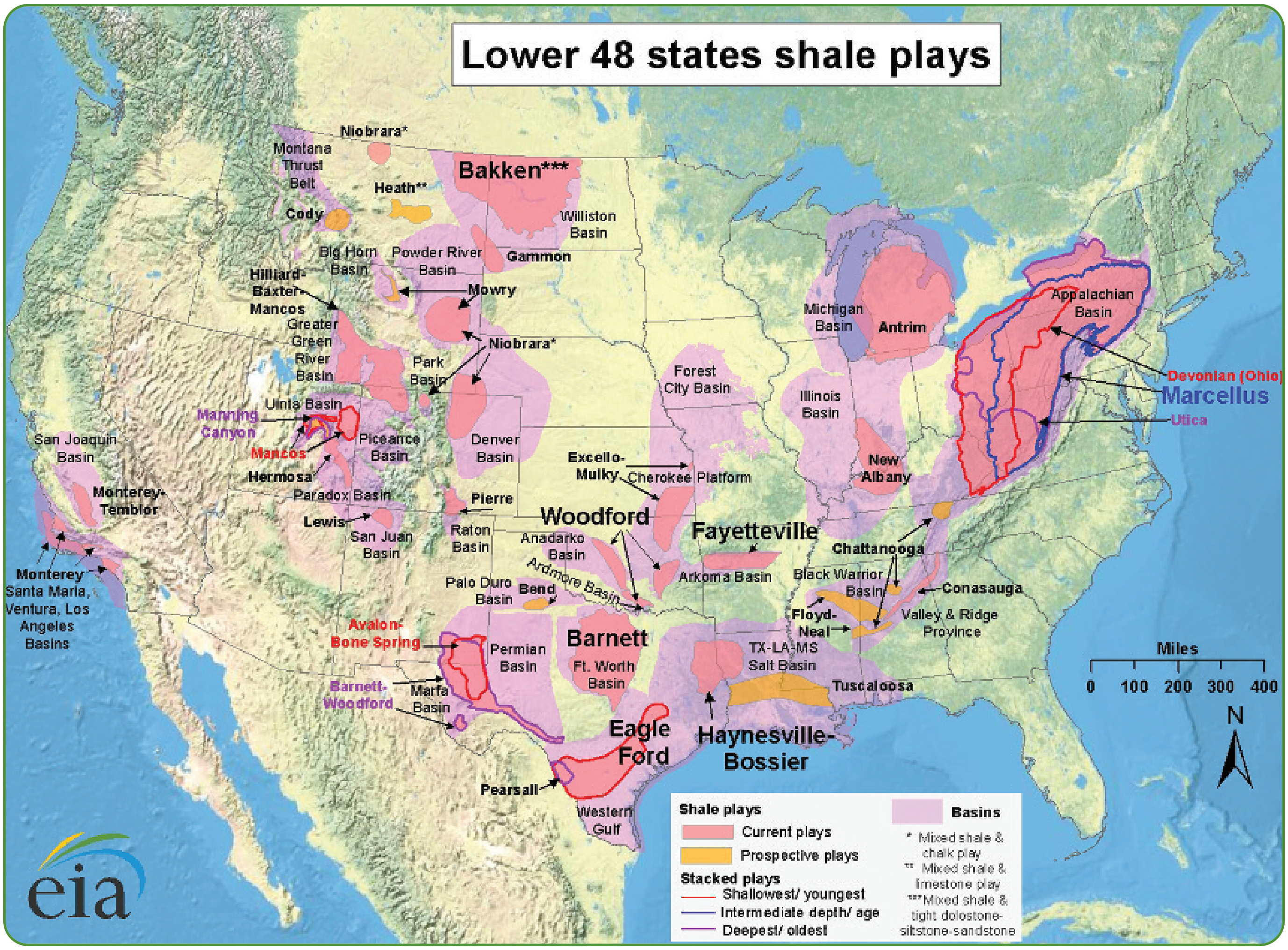


IMAGE: U.S. Energy Information Administration

Source: U.S. Energy Information Administration based on data from various published studies.
Updated: May 9, 2011

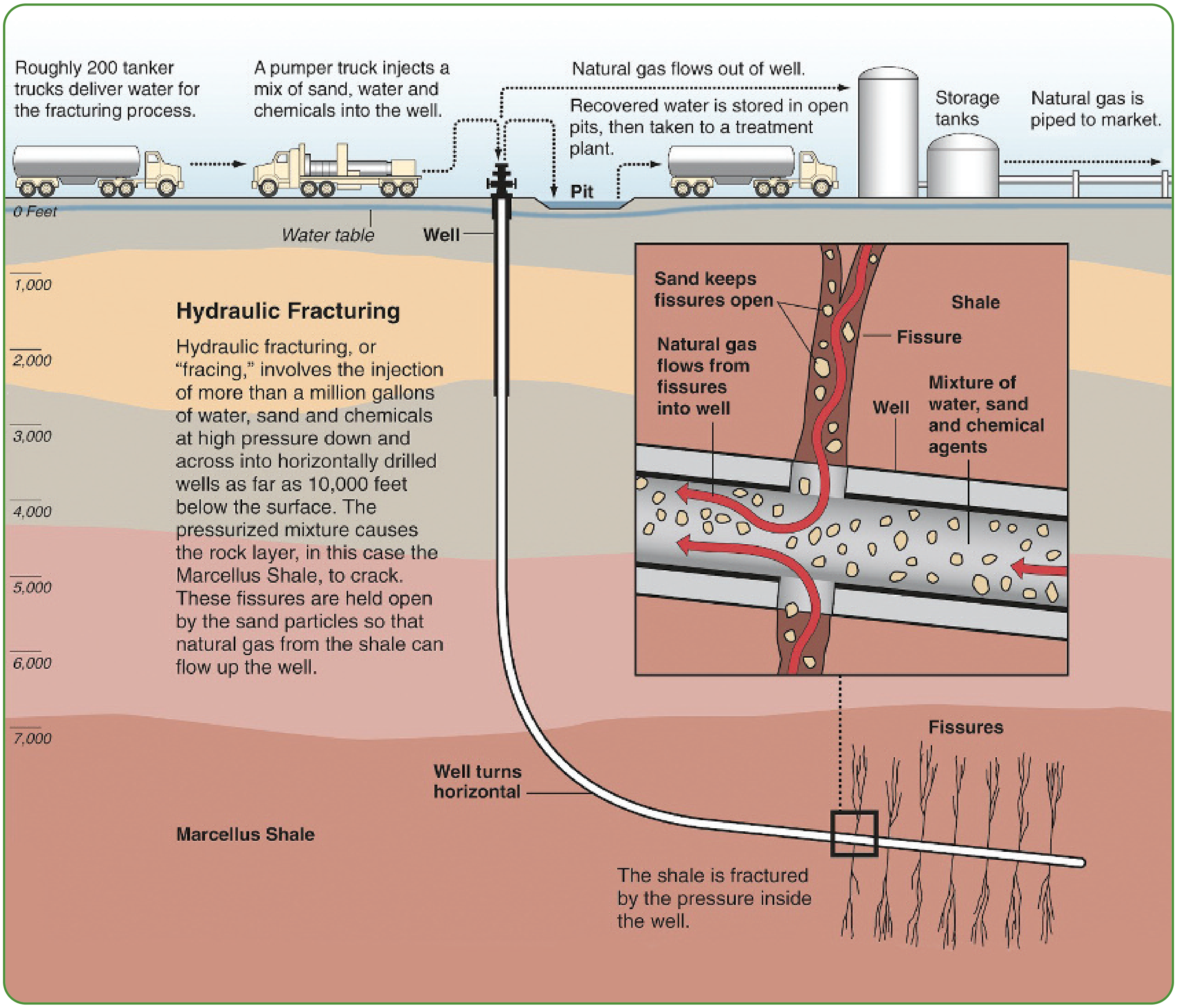


IMAGE: Al Granberg / Propublica.org

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