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Institutional Shareholder Services Recommends in Favor of Global Warming Resolution at American Electric Power

Connecticut pension fund is primary filer of shareholder resolution urging company to inform shareholders of financial risks related to climate change

Institutional Shareholder Services (ISS), the largest investment advisory service to institutional investors nationwide, has issued a recommendation in favor of a shareholder resolution that calls on American Electric Power to report to shareholders on potential financial risks to the company related to greenhouse gas and other emissions.

The resolution, filed by Connecticut Retirement Plans and Trust Funds (CRPTF) and Christian Brothers Investment Services (CBIS), focuses on the potential risks to shareholders posed by the company's CO_2 emissions, the primary greenhouse gas linked to global warming. The resolution was one of a number of similar resolutions filed by shareholders at electric utility and other companies in cooperation with the Interfaith Center on Corporate Responsibility (ICCR), a coalition of 275 faith based investors and CERES, a coalition of investors and environmental groups. The CRPTF has co-filed a similar resolution at Exxon-Mobil.

The shareholder vote on the resolution will be finalized and announced at the company's annual meeting on Wednesday, April 23 in Columbus, Ohio. The ISS report states that "As the requested report will help shareholders assess financial risk related to greenhouse gas emissions, we recommend support for this request."

The resolution asks that the company prepare a report to shareholders on "(a) the economic risks associated with the Company's past, present, and future emissions of carbon dioxide, sulfur dioxide, nitrogen oxide and mercury emissions, and the public stance of the company regarding efforts to reduce these emissions and (b) the economic benefits of committing to a substantial reduction of those emissions related to its current business activities (i.e. potential improvement in competitiveness and profitability)".

The information requested in the shareholder resolution is material to the financial future of the company, according to Nappier, principal fiduciary of the $17 billion Connecticut retirement fund.

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“The ISS recommendation supports our view that emissions present a cost and a potential liability to this company,” said Nappier. “As the principal fiduciary of my state’s retirement funds and a shareholder, I have a responsibility to make sure that those figures and that analysis is readily available to the investing public with a thorough explanation of the potential impact, now and in the future, on shareholder value.”

The ISS analysis describes and commends the company for some pro-active steps, but it chides the company's tone and lack of detail, noting that the company responds to shareholders by claiming it has factored the risks of regulation into its business strategy "without further comment."

According to the ISS report, their recommendation came at the conclusion of their standard evaluation process.

“When reviewing requests for reports on greenhouse gas emissions or climate change policies, we evaluate whether adoption of the proposal would have either a positive or negative impact on short-term or long-term shareholder value. We also examine the structure of the proposal and the company’s current level of disclosure. ISS also looks at the company’s record on greenhouse gas emissions and other established environmental polices. Finally, we consider the company’s response and the degree to which the company’s stated position on the issues could affect its reputation or sales.”

"Given the fact that even the company understands these risks to be material, and that there is very likely to be increased regulation and legislation in this area that could substantially affect AEP's financial performance, it is reasonable to ask for more information on how the company is addressing these risks," said Julie Tanner, Corporate Advocacy Coordinator at CBIS. "This same philosophy holds true for other utilities - shareholders have filed similar resolutions asking for the same information at companies that include Southern Company and TXU Energy."

American Electric Power had attempted to omit the resolution from its proxy material and requested “no action” from the SEC based on a claim that they had already implemented the proposal, and other technical issues. The SEC denied that request earlier this year – rejecting the company’s claim that they had already provided shareholders with the information requested in the resolution.

In their proxy response to the resolution, AEP states that “Substantial reductions in emissions can only be accomplished at a capital cost of billions of dollars to retrofit existing plants with advanced pollution control technology and/or replace a significant percent of capacity with new generation that emits lower levels of these emissions. The company's ability to recover these costs through the price of electricity charged to customers is subject to public utility commission approval in states that regulate generation, and complete recovery is not assured. In states that have deregulated generation costs, market prices would dictate the extent to which recovery is achieved. If a substantial

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portion of these costs is not recovered from customers, there could be a material adverse impact on shareholders."

"The company is telling shareholders in their proxy that there is a potential cost to them of billions of dollars," said Nappier. "AEP has a responsibility to shareholders to issue a report detailing those potential costs, and to tell shareholders how they intend to mitigate the risk of what they cite as a material adverse impact on shareholders. We are a long-term investor and we are asking the company to share with us their long-term strategy to address this issue."

The company also argues against the shareholder proposal by relying on studies that it says have undergone "rigorous testing and peer review." The ISS recommendation, however, said "These studies, according to management, have not found any association between power plant emissions and human health impacts. The company suggests it should only rely on such sound science for its decision-making processes. It is worthy noting that arguments promoting 'sound science' over otherwise 'junk science' was a tactic first adopted by the tobacco industry in refuting the EPA's claim that second-hand smoke is dangerous to human health. The tobacco companies alleged that such scientific studies by the government were more sensational than grounded in facts. The tobacco industry is now suffering through a settlement of $246 billion with state and federal governments and still faces countless other lawsuits. In the case of AEP, the company is challenging studies that include one from the American Cancer Society, published in the Journal of the American Medical Association, which linked higher sulfate exposure to increased premature death."

The CRPTF holds approximately 184,000 shares of AEP worth approximately $4.4 million. A representative of the Connecticut pension fund will be attending the annual meeting next week and will address the board.

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