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Investors Call On Power Sector And Wall Street To Focus Attention On Financial Risks From Climate Change

Citing a new Ceres report about the financial risks electric power companies face from climate change, leading U.S. institutional investors today called on the country's 50 largest investor-owned greenhouse gas emitters in the electric power industry to report within a year how future greenhouse gas limits will affect their financial bottom lines and steps they are taking to reduce those financial impacts and improve their competitive positioning. The investors will be mailing letters to the CEOs of the 50 companies on this issue later this month.

The investors also called on the top bond rating agencies and major Wall Street investment firms that structure financing packages to include climate risk analysis in their ratings of power sector investments.

The investor requests follow first-time climate risk evaluation reports by three of the nation's largest power sector companies -- American Electric Power, Cinergy and TXU - at the urging of shareholders. According to an analysis of those reports released today by the Boston-based Ceres investor coalition, there is widespread concern in the industry about regulatory uncertainty and the potential financial exposure it is causing for long-term capital investments.

"These first-in-the-industry reports demonstrate the need for companies across the country to take a hard look at the business ramifications of climate change," said Denise L. Nappier, Connecticut State Treasurer, whose office has been active the past several years urging electric power, oil & gas and auto companies to analyze the financial impact of climate change. "It's time for the rest of the industry to provide shareholders with a thorough analysis of both the risks and opportunities, so that long-term investors can make informed decisions."

"Shareholders need to know if the companies they own are going down the prudent path by adopting strategies that will enable them to survive or thrive in a world of increasing environmental concern and regulation, or whether they are taking the path of denial, risk, liability and cost," added Phil Angelides, a board member of the California Public Employees' Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS), the nation's largest and third largest public pension funds with about $311 billion of assets.

Nappier, Angelides and Westly said the climate risk reports from power sector companies should include financial analysis of likely regulatory scenarios and the strategic actions being taken to prepare for those scenarios.

"Wall Street firms should insist upon climate risk analysis as standard practice and companies should be preparing them voluntarily without investors having to file shareholder resolutions," added Nappier, principal fiduciary of the $20 billion Connecticut Retirement Plans and Trust Funds.

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The report comes as the industry is proposing to build more than 100 new coal-fired power plants in the coming years - investments that could be substantially affected when greenhouse gas regulations are adopted in the U.S., as is widely expected.

"Managing a power company in these uncertain times is an enormous challenge with both risks and opportunities for investors if they don't watch these investments carefully," said Mindy Lubber, president of the Ceres coalition, which commissioned the study in collaboration with investor members of the Interfaith Center on Corporate Responsibility.

"Ignoring the impact of carbon on the environment and on corporate bottom lines would be fiscally irresponsible and a disservice to investors, taxpayers and the environment. Electric power companies must act sooner rather than later to preserve shareholder value. Assessing this risk is a smart, strategic, common sense action that any responsible business leader should take to succeed in the emerging carbon-constrained world," added Steve Westly, controller of the state of California and another trustee of CalPERS and CalSTRS.

The Ceres investor coalition has convened a group of investors, environmentalists and industry representatives that will recommend best practice guidelines for analysis and disclosure on climate risk issues this summer. The results will immediately be shared with power sector companies and Wall Street firms.

Four companies - AEP, TXU, Cinergy and Southern - agreed last year to prepare reports and several more have agreed this year to do the same, including FirstEnergy, Progress Energy and DTE Energy. A resolution requesting a climate risk report is still pending before Dominion and will be voted on by shareholders this spring.

An analysis of those reports by Ceres underscores shareholders' concerns. All three of the companies acknowledged that carbon limits are inevitable in the U.S. and also voiced widespread concern that impending climate regulations might make today's investments and operating decisions obsolete. Among the key findings in the Ceres report:

- **All of the companies are concerned about financial risks from regulatory uncertainty**

AEP called uncertainty its biggest challenge, saying in its report: "The central challenge then company faces is that of making decisions about large investments in long-lived assets in a setting of uncertain public policy and rapidly evolving technology."

Cinergy said "uncertainties are particularly challenging" and are causing "higher costs and rates to customers than are necessary." Cinergy said "prompt adoption of a clear, long-term federal environmental policy would benefit all" companies in the industry.

- **All of the companies are concerned they will be penalized for early voluntary emissions reductions, an issue that calls into question the effectiveness of a voluntary approach to greenhouse gas reductions.**

TXU said any investments in voluntary reductions are unwarranted right now because there are no mandatory requirements in place for passing some of the extra costs through to customers.

While conceding that some of the investments may prove untenable once regulations are clearer, Cinergy and AEP both outlined a diverse portfolio of strategies they are pursuing to reduce their emissions, including efficiency improvements, carbon sequestration projects, investments in renewable fuels and support for a new clean-coal technology known as Integrated Gasification Combined Cycle (IGCC).

- **AEP and Cinergy said national carbon regulations can be implemented without causing significant harm to the U.S. economy.**

AEP said: "(the company) could meet a reasonable constraint at significant but manageable costs - provided that the program was efficiently designed."

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Cinergy said "a well constructed policy that gradually and predictably reduces emissions can be managed without undue disruption to the company or economy, though even the best plan will have rate impacts on customers." TXU did not address the issue.

"These companies all deserve credit for issuing groundbreaking reports acknowledging the monumental challenge of climate change, the importance of this issue for their stakeholders, and the need to find solutions," said the Rev. William Somplatsky-Jarman of the Presbyterian Church (USA), which has filed global warming shareholder resolution with companies such as Cinergy and FirstEnergy. "As long-term investors, and people who care deeply about the planet, we encourage other companies to follow their examples."

Investors consider the electric power industry to be a likely target for regional and national carbon regulations because it is the largest source of greenhouse gases in the United States, contributing 39 percent of the country's emissions and 10 percent of the world's.

Two states in the Northeast have already imposed carbon emission limits on power plants and a handful of other states, including California, Colorado and Utah, now expect power companies to factor carbon emission costs - as high as $15 a ton - into their proposals for new power plants.

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