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# Shareholder Advocates Expose Coal Industry's Financial Erosion

## Shareholder Resolutions Examine Failing Financial Health of Coal Industry; Urge Transition from Coal to Clean Energy for Financial Sustainability

This month resolutions filed by the shareholder advocacy group As You Sow will be voted on by shareholders at the annual meetings of three U.S. coal-fired utilities: Duke Energy, FirstEnergy, and CMS Energy. The resolutions ask for a report on the financial risks of the companies' continued reliance on coal. As You Sow and Trillium Asset Management also co-filed a similar resolution with Dominion Resources. The resolutions cite the financial risks associated with coal that have been identified in a series of reports by industry analysts and ask the companies to compare the cumulative risks of coal with increased investments in efficiency and cleaner energy.

Shareholder votes will be taking place at Duke Energy in Charlotte, NC on May 5; Dominion in Charlottesville, VA on May 12; FirstEnergy in Akron, OH on May 17; and CMS in Jackson, MI on May 20.

In the past year, numerous reports from respected industry analysts such as Bernstein, Brattle, and Citibank have highlighted the unprecedented risks facing coal-fired electric utilities. Despite some pickup in the national economy, by the end of 2010 coal plants nationwide had lost 10% of their asset value and the list of coal plant retirements continues to grow. More than 120 proposals for new coal-fired power plants, representing more than $189 billion in new capital investment, have been canceled or postponed since 2007. By contrast, plans for new natural gas plants and alternative energy projects were on the rise in 2010.

The darkening outlook for coal's financial future has been brought on by the rising cost of coal as reserves decline in the mature fields of Appalachia, while natural gas prices are projected to remain low for a decade or more. Gas-fired plants are pushing down electricity rates at a time when coal-fired utilities must decide whether to modernize aging coal plants by investing in expensive pollution controls, converting them to natural gas, or retiring them altogether and investing in energy efficiency and renewables. In addition, utilities are facing regulatory uncertainty regarding mandates from the Environmental Protection Agency (EPA) on greenhouse gas emissions, wastewater, cooling water, coal ash, and more stringent enforcement of existing rules on air pollutants.

"Coal-fired generation, once a stable performer for utilities, consumers and investors, is now a laggard," says Tom Sanzillo, former First Deputy Comptroller of New York State and Senior Associate of TR Rose Associates a leading energy sector financial consulting firm. "The losses from coal are now. The outlook is volatile and costly. The weight of responsibility is on utilities with coal plants to justify to investors why and at what levels continued use of coal is profitable."

The shareholder resolutions focus on the growing investment risks for investors in coal-fired utilities and the need for utility companies to disclose the financial impact of these cumulative risks and how they intend to manage them. The financial risk resolution was also filed with Entergy and PSEG, but was withdrawn when these companies agreed to provide investors with the requested report. The resolution was also withdrawn from Xcel after the company announced that it was re-powering coal-fired units at its Minnesota Black Dog plants with natural gas.

In addition to the resolutions, a white paper, “Financial Risks of Investments in Coal-Fired Utilities” is planned for release in June as a review of the coal-dependent utility industry, the cumulative risks and summary of analyst reports indicating that shareholders should look very closely at this sector in transition.

“These shareholder resolutions, and the work of As You Sow with coal-fired utilities indicates a critical transition that is taking place in our nation’s energy sector,” said Andrew Behar, CEO of As You Sow. “We want these companies to take a hard look at the costs and risks of burning coal versus the transition to a clean energy mix of efficiency, wind, solar, and gas. Our analysis shows that the economics of staying in coal no longer make sense and shareholders need to press companies for answers about the future of their investments.”

**Background on transitioning to clean energy:**

- **An Aging Fleet:** A significant portion of the nation’s existing fleet of coal-burning plants, 60% of which are over 40 years old, could be retired in the very near future. Electric utilities must decide whether to modernize these aging plants, at great capital expense that would need to be amortized over a shorter plant life-span.

- **Coal Prices Rise, While Natural Gas and Renewable Resources Become More Affordable:** The growing expenditure of coal mining and diminishing coal reserves, combined with low-cost replacement resources (solar, wind, and natural gas) have eroded coal’s once competitive market edge. Price-wise, natural gas has replaced coal as a more financially viable and sustainable energy source. Given future predictions for relatively flat gas prices, low power prices, and volatility in the price of coal, underutilized gas plants will be called upon before coal-fired plants on an increasing basis.

- **Unprecedented Level of Environmental Regulatory Uncertainty:** New EPA limits on acid rain and hazardous air pollutants, such as mercury, and coal ash waste disposal rules will cost coal companies hundreds of millions of dollars per plant to meet compliance standards. Additionally, existing regulations are being more strictly enforced as a result of litigation and new regulations in the pipeline will impart significant, unpredictable costs on coal-reliant industries.

- **Sky High Construction Costs:** Global prices for construction materials have increased due to new power plant construction in China and India. In 2002, a 600MW plant cost $1500/KW to build ($900 million); by 2009 that same plant design cost $3500/KW or $2.1 billion. To make matters even worse for the coal industry, the increasing cost of capital due to poor ratings makes borrowing an unviable option.

Besides the financial risk for investors and the growing environmental burden of coal-fired energy, coal has many negative impacts that endanger workers and the public at large. Coal companies that practice mountaintop removal mining dump their production waste into nearby water sources, contaminating the ground water. Coal ash stored in vast ponds are leaching heavy metals (including arsenic, mercury and lead) into aquifers across the US. Coal-burning utilities are major emitters of pollution that contribute to respiratory and cardiac disease, while harming our environment by causing acid rain, smog, and climate change. This toll on human health and our environment from the nation’s coal plants becomes more unacceptable given that cleaner and economically competitive alternatives for electric power generation exist.

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As You Sow is a nonprofit organization that promotes corporate responsibility through shareholder advocacy, coalition building, and innovative legal strategies. For more information visit www.asyousow.org.