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Under Investor Pressure, Utility to Study Emissions

Ciane Cardwell | Jan. 14, 2014

FirstEnergy, one of the country's largest electric companies, has agreed to work toward reducing its carbon emissions in response to pressure from shareholders including New York State and Connecticut pension funds, New York Comptroller Thomas P. DiNapoli said on Tuesday.

The Bruce Mansfield Power Station in Shippingport, Pa., is owned by FirstEnergy.

Photo: Philip G. Pavely/Pittsburgh Tribune-Review, via Associated Press

The company, which operates in six states, including Ohio, Pennsylvania and New Jersey, promised to study and report on what it could do to help meet President Obama's goal of reducing carbon emissions by 80 percent by 2050. As a result, Mr. DiNapoli, the State of Connecticut and As You Sow, a shareholder advocacy group, agreed to withdraw a shareholder resolution they had filed for First Energy's annual meeting this year.

Mr. DiNapoli said the decision could speed the adoption of agreements for environmental planning at other energy companies.

"Many of our energy holdings obviously have been very profitable for us in the short run," he said. "What we're trying to ensure is that in the long run that profitability is sustainable. We do see tremendous risk if issues ofclimate change are not incorporated into corporate strategy."

The agreement comes as investors are increasingly pressuring corporations into action on climate change.

A movement to get universities, foundations and governments to rid themselves of investments in fossil-fuel companies has had some successes. Three former treasury secretaries and two billionaires — former Mayor Michael R. Bloomberg and Tom Steyer — have started an effort called Risky Business to assess the economic risks posed if climate change is left unaddressed. And the use of shareholder resolutions calling for more focus on areas like climate change and sustainability, energy extraction procedures, energy efficiency and recycling is rising, a report from Ernst & Young said.

In the 2013 proxy season, shareholder submissions grew more than 6 percent compared with the year before, with environmental and social proposals representing the largest category, at just under 40 percent.

Many shareholder proposals meet with success, said Allie Rutherford, director of corporate governance at Ernst & Young, given that shareholders often withdraw them in favor of discussions with the companies or actions taken by them.

"Investors have been pushing on some of these issues for a long time, and I think there's been broader acceptance among the investor community. And that's evident in the rising support for certain of these proposals," Ms. Rutherford said. "I also think there's growing recognition on the company side."

In the case of FirstEnergy, Mr. DiNapoli and his partners filed the proposal as part of a larger effort with Ceres, a coalition of environmentalists and investors, to make companies more environmentally responsive. The New York State pension fund owns 1,205,383 shares of FirstEnergy, according to the comptroller's office, worth about $38 million at the market's close on Tuesday. More than half of the power sources for the utility are coal, according to its website, but it says it has been working to reduce emissions and pollution over the last two decades by closing plants and installing more emissions-control equipment.

"The company has aggressive plans in place to further reduce emissions into the future," Stephanie Walton, a spokeswoman for FirstEnergy, wrote in an email. "In response to shareholder interest, FirstEnergy has agreed to provide additional transparency by outlining these plans in its 2014 Sustainability Report, which will be published later this year."

Mr. DiNapoli's office has won settlements with a dozen companies, including coal-dependent utilities and food businesses like Dunkin' Donuts and Smucker's that use palm oil, whose harvesting practices can harm the environment. The office has outstanding submissions with CMS Energy, Ameren and Safeway.

As an approach, using shareholder resolutions is a "fairly blunt instrument," said Dan Bakal, director of electric power programs at Ceres, but it was proving to be a successful one.

Although the resolutions are not binding, Mr. Bakal said, they are influential. "What it really is about is whether or not a company thinks there's a significant number of their shareholders that are going to be concerned about how a company is addressing an issue," he said. "Companies are not likely to respond or make commitments unless they think there's some significant portion of their shareholders that are going to be interested."