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# As You Sow Reports on Investment Risks Associated with Coal

Robert Kropp| July 6, 2011

As shareowner support grows for resolutions addressing risks of reliance on coal and coal ash, a white paper details the decline of the industry's profitability.

Sustainable investors were emphatic in their expression of concern over risks associated with coal during the 2011 proxy season, as all four shareowner resolutions requesting that companies report on the risks of reliance on coal won enough votes to be on proxy ballots in 2012. The resolution at First Energy won 31.4% of shareowners' votes. In addition, four more resolutions were withdrawn, as three of the companies agreed to publish such a report.

A resolution filed with Ameren by the Midwest Coalition for Responsible Investment, requesting that the company report on its efforts to "identify and reduce environmental and health hazards associated with past and present handling of coal combustion waste," received favorable votes from 52.7% of shareowners.

A recently published white paper by As You Sow details many of the growing risks associated with continued reliance on coal, from increased regulation to declining prices and rising construction prices. During the past five years, the white paper states, "The utility markets which include investor-owned utilities, public power authorities, rural electric cooperatives, and municipal electric systems have canceled or postponed 153 new coal plant proposals," amounting to $243 billion in investments reversed.

A significant factor in the decline of coal has been the price reversal of coal relative to natural gas, which, the white paper asserts, "is in abundant supply for the foreseeable future." However, one week after the white paper was published, the New York Times reported on concerns that, as a result of the 2008 loosening of Securities and Exchange Commission (SEC) regulations, "some companies are overstating, perhaps intentionally, the amount of gas they can economically produce in a given period."

After the article in the Times was published, As You Sow stated, "Low priced natural gas is displacing coal-fired generation and will continue to do so. Given currently available data, we see no reason to revise this assessment."

On the regulatory front, the Environmental Protection Agency (EPA) is expected to issue final regulations addressing pollution from coal-fired power plants, and the cost of compliance is likely to decrease further the profitability of an industry that lost 10% of its asset value in 2010.

"Pension, institutional, and endowment fund sponsors, trustees, board members, and managers need to consider the individual and cumulative impact of these risks and evaluate options to mitigate adverse impacts on portfolio value," the white paper stated. "We believe that the analysis presented in this white paper requires all investors, but particularly responsible investors concerned with environmental, social, and governance issues, to engage the management of utility companies to find alternatives to coal-based power generation in order to protect shareholder value."