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CONTACT: Glenn Turner, 917-817-3396, glenn@ripplestrategies.com
Or Shayna Samuels, 718-541-4785, shayna@ripplestrategies.com

Shareholders Press Utilities to Reduce Financial Risks of Coal

Duke, Ameren, and FirstEnergy Shareholders Demand Companies Develop Plans to Reduce Risks of Reliance on Dirty Fossil Fuels

Shareholders have successfully put Duke Energy, Ameren, and FirstEnergy under scrutiny for the companies' continued reliance on coal – an energy source that is becoming increasingly costly, vulnerable to competition from low natural gas prices, and subject to more stringent environmental regulations to protect human health and the environment.

This month, shareholders voiced their support for resolutions at Duke (12%), FirstEnergy (11%), and Ameren (10.5%), calling for the utilities to disclose their plans to reduce exposure to the costs and risks associated with continued reliance on coal, and to report to shareholders on progress in implementing their plans. These votes exceeded the SEC-defined threshold for success: Ameren received over three times the support required for a first-year proposal; the vote at Duke increased by 41% over a similar resolution filed last year.

The proposals were filed by As You Sow, a shareholder advocacy group that has been engaging with utilities to reduce the risks related to their reliance on coal-fired electricity generation.

"The era of cheap coal is over, and investors are urging coal-fired utilities to plan for a clean energy future," said Corinne Bendersky, As You Sow's Energy Program Manager. "Investors need greater transparency on how companies will manage the risks facing their remaining coal plants, and how they plan to navigate the transition to new energy sources."

Given the 2014 deadline for compliance with new mercury air pollution standards, utilities are faced with immediate decisions regarding investing in environmental controls or retiring their costly and aging coal-fired generating assets. Investors want to understand the long-term viability of these investments, especially in light of pending regulation of greenhouse gases and other air emissions, water intake, and coal combustion waste on the EPA's agenda, which raises the prospect of further capital expenditures to clean up coal plants.

More on Duke Energy

Duke, which supplies electricity to approximately four million customers in the Carolinas and the Midwest, is in the process of merging with Progress Energy, a Southeastern utility. Once completed, the combined company will be the nation's largest utility, with more than seven million customers and approximately 57,000 MW of capacity. The company will depend on coal for 42% of its generating capacity, 11% of which lacks environmental controls. This combined fleet will include 30 coal-fired plants, of which 16 lack sulfur dioxide controls and all lack mercury controls.

According to Fitch Ratings, fully 25% of Duke's total coal capacity is at risk of retirement due to a lack of environmental controls. Although Duke is retiring some older, dirtier coal plants, it is building two new coal-fired power plants in Cliffside, NC and Edwardsport, IN. Both of these projects are significantly over-budget with combined construction cost overruns exceeding $1.5 billion.

More on Ameren

Ameren's current disclosures indicate that the company will continue to rely heavily on coal and has no plans to diversify its fleet. All three major credit rating agencies have downgraded Ameren's merchant business segment due to the coal-related risks highlighted in the As You Sow resolution.

Ameren, which relies on coal for 98% of the power for its merchant fleet and 85% for its regulated fleet, was ranked by Fitch Ratings as second among the top 10 U.S. utilities with coal plants lacking environmental controls that are at risk of retirement.

More on FirstEnergy

FirstEnergy recently announced that they would close nine of their oldest and dirtiest coal plants, a decision that addressed some of the specific risks highlighted by As You Sow. Nonetheless, the company intends to increase generation at its remaining coal plants, leaving the company susceptible to further financial and regulatory risk.

The company was ranked fourth among U.S. utilities with coal plants at risk of retirement due to lack of environmental controls. It has nearly $2 billion allocated to invest in its remaining coal plants to comply with the new mercury standards. Yet even after these upgrades are complete, FirstEnergy will likely have to invest more money to retrofit its remaining coal plants to meet pending and proposed environmental standards. The Company also sources its coal from Central Appalachia, where prices have soared 48% between December 2009 and October 2011.

"Investor concerns continue to increase over the economic viability of coal as an electricity-generating source," said As You Sow CEO Andrew Behar. "The companies that will thrive and prosper over the long terms are those that develop a comprehensive plan and invest in the transition from coal to efficiency and clean energy sources."

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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.