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Get Real about Climate Change, Shareowners Tell Utilities

With trillions of dollars in infrastructure upgrades looming for electric utilities, investors call on five companies to emphasize a transition to renewables, improve energy efficiency, and manage water risks.

Robert Kroppp | Feb. 28, 2013

A 2012 report by Ceres entitled Pra cticing Risk-Aware Electricity Regulation, while addressed to state regulatory utility commissioners, "focuses primarily on resource investment decisions by investor-owned electric utilities (IOUs), which constitute roughly 70 percent of the US electric power industry."

Noting "the very large amount of capital investment" in infrastructure that is likely to occur, as well as "the resulting upward pressure on electricity rates," the report observes that it is unlikely that regulators will pass on the full costs to customers. In order for regulators to effectively manage risk, the report states, utility supply portfolios should be diversified "with an emphasis on low-carbon resources and energy efficiency."

Mindy Lubber, director of the Investor Network on Climate Risk (INCR) and president of Ceres, said, "Utilities are expected to spend $2 trillion on infrastructure over the next 20 years, and investors want to ensure that money is spent wisely."

To help accomplish that end, Ceres has coordinated shareowner resolutions filed this year with five electric power utilities. Four of the utilities—Ameren, DTE Energy, FirstEnergy, and SCANA—rely on coal for more than half of their electricity production. Also, FirstEnergy opposed the establishment of energy efficiency standards in Ohio, and DTE opposed renewable energy policy initiatives in Michigan. The four resolutions were filed by New York State Comptroller Thomas DiNapoli, who is trustee of the New York State Common Retirement Fund.

The resolutions request that the utilities report on actions to increase energy efficiency and renewable energy. "Given the current regulatory climate, an excessive reliance on coal can create serious risk to shareholder value," DiNapoli said. "Companies should take proactive steps to increase energy efficiency and promote renewable energy sources."

Resolutions filed by As You Sow request that Ameren and FirstEnergy report on "strategies and quantitative goals to reduce the company's impacts on, and risks to, water quantity and quality, above and beyond regulatory compliance."

Along with quantitative targets for reducing water use, the companies should also set goals for the "use of less water-intensive energy sources such as photovoltaic solar and wind," the resolutions state.

"The electric power sector is one of the largest users of water in the US, accounting for 41 percent of total freshwater withdrawals, mainly for generation and cooling," Corinne Bendersky of As You Sow said. "With climate change expected to exacerbate droughts, induce more frequent and severe heat waves, and change rainfall patterns, investors believe that electric utilities should better understand their exposure to water-related risks and develop plans to operate effectively in a water-constrained world."

Calvert Investments filed a resolution with Cleco, requesting that the utility prepare a sustainability report that includes "an analysis of material water-related risks." A similar resolution filed with Cleco in 2012 gained 34% of shareowner support, according to Calvert.

Shareowners working with Ceres have filed 91 resolutions addressing climate and sustainability risks with 78 companies this proxy season. Resolutions filed with companies in the information technologies (IT) industry address renewable energy and energy efficiency with the large energy users in the sector. Resolutions filed with companies in the real estate sector request that they produce sustainability reports "addressing greenhouse gas emissions, water conservation, waste minimization, energy efficiency, and other environmental and social impacts the Board deems relevant to Company's business."