CARBON ASSET RISK
CONSOL Energy

Annual Meeting: May 8, 2014, Pittsburgh, PA

RESOLUTION

Shareholders request CONSOL to prepare a report by September 2014, omitting proprietary information and prepared at reasonable cost, on the company's goals and plans to address global concerns regarding fossil fuels and their contribution to climate change, including analysis of long and short term financial and operational risks to the company.

SUPPORTING STATEMENT: We recommend the report include:

- Risks and opportunities associated with various low-carbon scenarios, including reducing GHG emissions by 80 percent by 2050, as well as a scenario in which global coal demand declines due to evolving policy, technology, or consumer responses to address climate change;
- Whether and how the company's capital allocation plans account for the risks and opportunities in these scenarios;
- Plans to manage these risks, such as diversifying its business by investing in lower-carbon energy sources, or returning capital to shareholders;
- Assumptions regarding deployment of CCS;
- The Board of Directors' role in overseeing capital allocation and climate risk reduction strategies.

RATIONALE FOR A YES VOTE

In the 2012 World Energy Outlook, the International Energy Agency states that "[n]o more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2 degree Celsius goal," generally recognized as the level beyond which global warming will have dire ramifications.

If laws and regulations are adjusted to recognize this limitation, the vast majority of fossil fuel companies could be left with stranded assets in the form of unburnable reserves and underused infrastructure. In addition, fundamental shifts in energy markets are underway including plateaus or reductions in demand for fossil fuels; increasing costs to find, produce, and develop oil and gas; and competition from renewables, among others.

This proposal asks companies to report plans to address global concerns regarding fossil fuels and their contribution to climate change, including an analysis of associated long- and short-term financial and operational risks. Further, the resolution asks companies to perform an analysis of various scenarios the company deems likely, or reasonably possible, in which a portion of its reserves or infrastructure become stranded due to carbon regulation, and to discuss the impact those scenarios would have on the company's plans to invest resources in continuing to explore for or further develop new fossil fuel reserves.

The information requested in this resolution is vital to enabling investors to analyze how companies are positioned to address climate change, carbon restrictions, and related changes in energy markets, providing valuable information for investors to make reasonable judgments about the benefits or risks associated with investing in these companies. After the credit and financial crises of 2008, it critical that investors are more attuned to the catastrophic effects of mispriced assets in the financial market.

FILER

Lead filer of this proposal is As You Sow.

SHAREHOLDER CAMPAIGN

A shareholder initiative was begun in September 2013 in which shareholders representing $3 trillion in assets under management asked 45 coal, oil and gas, and utilities for increased disclosure about whether those companies are addressing carbon related risk, the impact on capital expenditure decisions, and whether they are implementing strategies to avoid stranded assets in a carbon constrained world. Dialogues and engagements have been occurring since that time and 10 carbon asset risk proposals were filed this year.

CLIMATE CHANGE RELATED RISKS IDENTIFIED BY CONSOL – 2013 10k

CONSOL Energy, in its 10K, recognizes the importance of the climate-related risks that could be posed to the company and to shareholder value, including that climate change regulations could impact the companies’ ability to sell its reserves and the value of those reserves.

“Regulation of greenhouse gas emissions as well as uncertainty concerning such regulation could adversely impact the market for natural gas and coal and the regulation of greenhouse gas emissions may increase our operating costs and reduce the value of natural gas and coal assets.” (p. 33)

"The characteristics of coal may make it costly for electric power generators and other coal users to comply with various environmental standards regarding the emissions of impurities released when coal is burned which could cause utilities to replace coal-fired power plants with alternative fuels. In addition, various incentives have been proposed to encourage the generation of electricity from renewable energy sources. A reduction in the use of coal for electric power generation could decrease the volume of our coal sales and adversely affect our results of operation." (p. 32)

"For drilling and mining operations, CONSOL Energy must obtain, maintain, and renew governmental permits and approvals which if we cannot obtain in a timely manner would reduce our production, cash flow and results of operations." (p. 35)

"Existing and future government laws, regulations and other legal requirements relating to protection of the environment, and others that govern our business may increase our costs of doing business for coal and may restrict our coal operations." (p. 35-36)

RESPONSE TO CONSOL ARGUMENTS

While acknowledging the risks raised in the proposal, including risks associated with climate change regulations, shifting demand, and competition from renewables, CONSOL fails to address these risks or share that information with shareholders. CONSOL's general acknowledgement of risks provides no quantification of likely impact, no analysis of the extent to which such regulations/risks could affect the company's value, or whether or how the company plans to address such risks.

1) CONSOL argues that, "We practice responsible use of our land and other natural resources which is reflected in our Environmental Management System ("EMS"), in our research and development ("R&D") and numerous other environmental projects," and that "CONSOL maintains the largest private research and development facility in the U.S. coal and gas industry that is devoted exclusively to coal and energy utilization and improving energy efficiency and reducing pollution. The activities of the R&D facility include coal-fueled power plant emissions reduction, GHG emissions reduction, and ambient air quality."

Responsible land use, while laudable, is not responsive to the proposal. Similarly, a statement of R&D projects to reduce emissions does not explain how these technologies will adequately prepare the company for a low carbon future; whether the research is at or near a point where it can cost-effectively be employed to reduce carbon emissions of reserves; what amount of GHG emissions might be expected; or what impact such reductions would have on the ability to sell CONSOL's coal or gas in a carbon constrained world. Providing shareholders with greater information about this technology and how it can be implemented to allow greater use of fossil fuels in a carbon constrained world may indeed be responsive to this proposal, but CONSOL has not yet done so.

2) CONSOL notes that it belongs to the Center for Sustainable Shale Development which promotes third party acceptance of natural gas.

While laudable, this is not responsive to the proposal. Even if third parties support the production and use of natural gas, the carbon intensity of the fuel is still at issue, as is the quantity any given company can sell if climate change regulations go into effect. This is particularly true If natural gas is found to be more carbon-intensive than expected due to methane leaks in production or transport, an issue not addressed by CONSOL.

3) "The CRR provides detailed information directly responsive to the proposal with regard to CONSOL's goals and plans to address global concerns regarding fossil fuels (specifically related to our coal and natural gas operations) and their contribution to climate change. In addition to emphasizing that air and GHG emissions are material concerns for CONSOL, the "Environment at CONSOL Energy" section of the CRR outlines specific initiatives undertaken by CONSOL to reduce its own carbon footprint as well as to assist our customers with these issues."

While nibbling at the edges of the carbon intensity issue raised in the proposal, the CRR does not address the likely impact to the company if carbon regulations reduce the company's ability to use or sell up to 2/3 of its fossil fuel reserves; how likely the company believes this outcome to be; how the company is positioned to deal with various possible regulatory scenarios; and if and how the company plans to address these potential risks. While reduced carbon intensity of resources is important, CONSOL does not truly address this issue, does not explain how its resources are less carbon-intensive in relation to others', or address what amount of its reserves CONSOL believes it would be able to sell, and why, in such a scenario.

4) Next, CONSOL argues that: (1) The proposal has already been implemented through compliance with applicable laws and regulations," (2) that "CONSOL is engaged in a highly regulated business" and is "subject to extensive disclosure requirements pursuant to the rules and regulations of the SEC," and (3) that "Among other disclosure requirements, SEC Regulation S-K, Items 101 (Description of Business), 103 (Legal Proceedings), 303 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and 503(c) (Risk Factors) require CONSOL to provide disclosure in its public filings with the SEC that is substantially similar to the information requested in the proposal."

While CONSOL is subject to a variety of regulations and disclosure requirements, none are responsive to the proposal. The failure of government to address or regulate climate change in any meaningful way is why significant future limits on the use of fossil fuels are at issue. Further, while CONSOL does note the risks of climate change and future climate change regulations in its disclosures, it does not address how much risk the company faces, whether it will retain or lose value under such circumstances, how it will prosper under such conditions, whether its assets will be stranded, how it will fare in comparison to its competition, and whether capital investment decisions it is making now are appropriate given future scenarios related to climate change.

5. Consol also argues that the proposal is overreaching, unnecessary and unlikely to be prepared at reasonable cost and would require the company to engage in pure speculation on a variety of matters outside of its control and would not be prepared at a reasonable cost.

Far from being overreaching, this proposal asks CONSOL to undertake an analysis of a particular material risk associated with climate change. Climate change is a well-studied topic for a growing majority of companies, including CONSOL. This proposal asks the company to focus on a new and specific risk associated with climate change—the real risk of stranded assets associated with additional carbon regulation and/or pricing policies. New studies have assessed the magnitude of the risk—the potential for the stranding of at least 2/3 of worldwide fossil fuel reserves and an associated potential decrease in the value of coal assets. These studies have been brought to the company's attention in this proposal. Shareholders are requesting that CONSOL disclose this new risk and provide a report of the potential impact to CONSOL, and its goals and plans, if any, to address the potential risk.

The analysis and planning called for by this resolution—an examination of likely and significantly reduced demand and/or use scenarios for fossil fuel reserves—is a reasonable undertaking that the company should already be performing. Proponents acknowledge that there is no certainty on this issue, but the lack of certainty does not excuse inaction. CONSOL can assess and disclose what impact the stranding of 2/3 of its assets would be, or discuss why it believes that the company would be subject to a lesser amount of asset stranding based on type and carbon intensity of its reserves or other factors that would come into play. The company is also fully equipped to provide a range of reduced demand/usage scenarios, to describe how the company would be financially affected by each scenario, and to provide information regarding how, or whether, the company plans to address those risks. This information is critically important to shareholders, the majority of whom may not be aware of these new studies, the potential for stranded assets, or the likely significant impact to fossil fuel valuation associated with achieving the 2° limit of global warming. Further, studies and information exists to assist the company with what amount and type of fuels would be available under a two degree scenario including the 2012 World Energy Outlook prepared by the IEA. Bloomberg also now provides a tool that can assist companies in predicting carbon asset risk. In sum, proponents are not asking CONSOL to accurately predict the future, but to use existing resources and its planning teams to assess and provide information about the requested risk scenarios.

Other basic requests of the proposal are whether and how the company's capital allocation plans account for the risks and opportunities in these scenarios. Based on CONSOL's arguments, the answer to that question may be no, but this type of information is important and useful to shareholders and should be assessed by CONSOL as requested. Another straightforward request in the proposal is whether and how CONSOL plans to manage these risks, such as diversifying its business by investing in lower-carbon energy sources or returning capital to shareholders. As noted above, CONSOL can and should provide its assumptions regarding the use of CCS, which it has not done. Finally, CONSOL can also, without any guessing provide information about the Board of Director's role in overseeing capital allocation and climate risk reduction strategies. That information is also not currently provided by CONSOL.

PEER COMPARISON

Both Peabody Energy and ExxonMobil have recently acted as leaders in the field, publicly agreeing to issue reports on carbon asset risk. As demonstrated by Exxon, providing an analysis of the potential for stranded assets and other risks associated with climate change does not require a company to conclude that their assets are at risk. Critically important, however, is providing shareholders with the information and assumptions on which a company bases such conclusions.

CONCLUSION

In order to effectively manage risks and maximize opportunities associated with climate change, the information requested in this proposal is important to shareholders. Companies and shareholders need to be fully informed of the risk of stranded reserves and infrastructure assets and how, or if, the company is planning for a carbon constrained future. This valuable information will enable investors to analyze how the company is positioned to address climate change and carbon restrictions and to make reasonable judgments about the benefits or risks associated with investing in this company.