FirstEnergy

Financial Risks of Reliance on Coal

Whereas:

Coal-dependant electric utilities face numerous challenges and uncertainty regarding environmental compliance costs, coal price-volatility, and the cost of carbon capture and storage for coal plants. This unprecedented combination of forces has led companies such as Progress, Duke and Xcel to announce coal plant retirements.

Coal combustion for electricity is a major contributor to air pollution, accounting for 70% of the sulfur dioxide (SO_2), one third of the nitrous oxides (NOx), 50% of the mercury, a hazardous air pollutant, and over 36% of the carbon dioxide (CO_2) emitted in the U.S., in addition to soot and fine particulates in our air.

Industry analysts (Bernstein Research, Jeffries & Company, Standard & Poor's, Wood Mackenzie) have concluded that the cost of additional environmental control equipment for NOx, particulates and mercury may make it uneconomic to retrofit some older coal plants.

The merger between FirstEnergy Corporation and Allegheny Energy will make our company the 5^{th} largest consumer of coal in the U.S. with 70% of its generation derived from coal. Thirty-two percent of the new company's combined coal-fired fleet (4,945 MW) typically lack scrubbers, were built pre-1965, are less efficient and more costly to run.

Under a 2005 Consent Decree with the U.S. Environmental Protection Agency (EPA), FirstEnergy agreed to a $1.8 billion environmental retrofit of its W.H. Sammis Plant and to convert two coal units at it's R.E. Burger plant to biomass. FirstEnergy announced in November that these units would permanently close at the end of 2010 because "market prices for electricity have fallen significantly, and expected market prices no longer support a repowered Burger Plant."

EPA is moving, in some cases pursuant to court order, to tighten regulation of the air, water and waste impacts of coal plants. EPA must issue new rules by 2014 governing wastewater from power plants, which are responsible for "a significant amount" of toxic pollutants such as mercury and arsenic discharged to surface waters. EPA's pending regulations on storage and disposal of coal combustion wastes will likely increase operating costs for coal plants.

EPA is also developing a regulatory program for CO_2 and other greenhouse gas emissions. However, the lack of national climate policy to reduce CO_2 emissions further adds to the uncertain economics for coal plants. Commercial deployment of carbon capture and storage technology is 10 to 15 years away and "would increase electricity costs by about 30 to 80 percent," the U.S. Government Accountability Office reports.

Declining coal reserves in central Appalachia, unprecedented coal price increases and volatility, versus abundant supplies and record low-prices for cleaner burning natural gas, and declining costs for wind and solar energy make continued reliance on coal increasingly problematic.

Resolved:
Shareowners request that FirstEnergy's Board of Directors, at reasonable cost and omitting proprietary information, issue a report by November 2011 on the financial risks of continued reliance on coal contrasted with increased investments in efficiency and cleaner energy, including assessment of the cumulative costs of environmental compliance for coal plants compared to alternative generating sources.