



AMEREN EXECUTIVE INCENTIVE FOR CARBON REDUCTION

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SUMMARY

Research has verified the need to “align corporate executive compensation with long-term goals and strategies and with long-term shareowner interests.” (Breaking the Short Term Cycle, CFA Institute, 2006). The U.S. electric power sector is an excellent example of the troubling dichotomy between misaligned of shareholder and executive best interests.

This misalignment has occurred as a result of the power sector’s decarbonization in response to climate change. Carbon intensity has become a key performance indicator at power companies, with carbon reduction driving value, and carbon assets increasing risk. Companies are more frequently incentivizing named executive officers to deliver on climate goals. Companies that adopted explicit climate metrics include market heavyweights such as Alcoa, Intel, and National Grid. Carbon emissions at all three of companies are falling. The focus on climate is as much financial as environmental; research indicates that corporate carbon management results in a range of improved financial outcomes, detailed in this brief.

It is in electric power sector shareholders’ best interest to vigorously respond to climate change, to improve operating efficiency, stay competitive, reduce regulatory risk and minimize stranded asset risk. However Ameren’s existing incentive structure rewards Ameren’s remaining invested in increasingly risky, carbon intense activities, leaving the company unprepared to succeed financially in even the near term.

RESOLVE CLAUSE

RESOLVED: Ameren shareholders request that the Board’s Compensation Committee, when setting senior executive compensation, include metrics for reduction of Ameren’s carbon output as one of the annual performance metrics for senior executives under the Company’s “Executive Incentive Plan” (“EIP”).

Please see Appendix B for the full resolution.

RATIONALE FOR A YES VOTE

A. CURRENT INCENTIVES NO LONGER COMPORT WITH NEW POWER SECTOR FUNDAMENTALS



Ameren's annual incentive program, representing a larger proportion of annual pay than salary, is focused 90% on earnings per share (EPS), and 10% on safety. However, this focus on earnings fails to adequately incent executives to pivot the company to respond to escalating carbon risk. Currently, the simplest means of maximizing net income -and thus EPS- is for utility executives to prolong the life of existing coal plants. However, coal is only profitable in the short term, and is fraught with liability. Management's continued focus on coal keeps the company from transitioning to a business model that will be viable into the future, putting the company at risk of absorbing losses from stranded assets.

This aspect of regulatory risk is particularly relevant to Ameren as the company must seek approval for cost recovery and return on investment from the state. Recently, coal assets like those Ameren is planning to bring on to prolong the life of existing coal plants are being more frequently rejected as prudent investments deserving of cost recovery. In Mississippi, the public service commission has indefinitely delayed approval of charges Southern Company sought to pass on to customers for its new coal plant (Kemper), approximately \$6 billion, currently being absorbed by shareholders.^{1,2} In another instance, the Hawaii public utility commission rejected utilities' integrated resource plans, sent them back for utilities to integrate more solar, and is moving toward 100% renewable energy.^{3,4,5} In Ohio, a state that dismantled its own renewable energy standard law, still subsequently rejected an AEP plan to pass costs of coal plants through to customers.⁶ In New York, the state is revamping the utility system to be composed of low carbon distributed energy, moving away from the traditional utility model entirely.⁷

¹ Washington Times. *Hearing Delayed on Mississippi Power Kemper Costs*. (April, 2014).

<http://www.washingtontimes.com/news/2014/apr/24/hearing-delayed-on-mississippi-power-kemper-costs/>

² The Clarion-Ledger. *Hearing again delayed on Miss. Power Kemper*. (Aug, 2014)

costs<http://www.clarionledger.com/story/money/business/2014/08/07/hearing-delayed-miss-power-kemper-costs/13758651/>

³ Public Utilities Comissions, State of Hawaii. *Decision and Order No. 32052*. (April 2014).

<http://puc.hawaii.gov/wp-content/uploads/2014/04/Decision-and-Order-No.-32052.pdf> ,

⁴ Clean Energy Authority. *Hawaii PUC Rejects Utility Plan, Asks For More Solar*. (May, 2014).

<http://www.cleanenergyauthority.com/solar-energy-news/hawaii-puc-rejects-utility-plan-asks-for-more-solar-050114>

⁵ Clean Technica. *100% Renewable Energy Goal Looks More Likely For Hawaii*. (March, 2015)

<http://cleantechnica.com/2015/03/13/100-renewable-energy-goal-looks-likely-hawaii/>

⁶ Cleveland. *PUCO Rejects Deal to Have Ratepayers Subsidize a Coal-Fired Power Plant*. (Feb, 2015)

http://www.cleveland.com/business/index.ssf/2015/02/puco_rejects_deal_to_have_rate.html

⁷ National Resources Defense Council, Switchboard. *REV-ing it up in New York: A Look Under the Hood of the Reforming the Energy Vision Track I Order*. (March, 2015). http://switchboard.nrdc.org/blogs/jmorris/rev-ing_it_up_in_new_york_a_lo.html



Ameren executives have little basis to believe that Missouri will escape the transition to low carbon infrastructure. Yet, because officers are incentivized to maximize near term EPS, they have proceeded as if coal assets are a sound, viable investment for the company, an idea that is debunked by all unbiased indicators. Indeed, when costs are eventually passed down to shareholders, the current management team is likely to have moved on to new pursuits, bonuses in hand.

B. CURRENT INCENTIVES ENCOURAGE BUILDING OF ASSETS LIKELY TO BE STRANDED.

Fossil fuel investments of any kind include inherent systematic risk that is foreseeable today. Current incentives encourage executives to continue investing in fossil fuel assets whose operation could be made illegal in the next 10-20 years as laws are adopted in response to deteriorating climate conditions. Per above, given that public utility commissions are *already* refusing to pass on costs for fossil fuel infrastructure to customers, it is unlikely that they will become more inclined to do so as climate change worsens. An executive level bonus for carbon reductions would work to discourage investments in fossil fuel infrastructure would raise carbon output, thus also would reducing the risk of stranded assets and financial liability.

For example, Ameren has proposed “compliance” with the EPA’s Clean Power Plan through a \$2 billion natural gas plant, over investments in renewables and energy efficiency. A carbon metric would discourage this investment, which will yield substantial carbon output.

C. CURRENT INCENTIVES FAIL TO INCENTIVIZE RENEWABLE ENERGY DEVELOPMENT.

The payback period on renewable energy and low carbon investments is longer than the window in which executives need to see EPS improvements for compensation purposes, which is quarterly and annually. This short termism reinforces executives’ need to minimize investments that don’t show a return on a corresponding timeline, eliminating most utility scale renewables. Accordingly, Ameren is planning to acquire only 478 MW renewables generation by 2030 (Ameren Integrated Resource Plan⁸); this number is alarmingly low, representing one of the lowest levels of renewable energy adoption of any peer IOU in the US.

Besides trailing peers on adoption of best available technology, Ameren’s lack of responsiveness to climate change encourages customer grid defection. Utilities that have refused to provide low carbon power options to customers have seen the largest levels of customer owned distributed generation adoption. When customers can be independent of the grid entirely through solar-energy storage combination technology, it is known as “grid defection”, and due to rapidly declining solar and storage costs, the threshold for cost effective grid defection is approaching quickly. The Rocky Mountain Institute estimates grid defection viability for Kentucky, a state with no supportive renewable energy policy, between 2035 (based on current solar and storage cost reductions) and 2047 at latest.

⁸ Ameren Missouri. 2014 *Integrated Resource Plan: Executive Summary*. (2014) <https://www.ameren.com/-/media/Missouri-Site/Files/environment/renewables/irp/irp-chapter1.pdf?la=en> (p. 3)



Conservatively assuming an analogous timeline for Missouri⁹ (which has a robust renewable energy portfolio standard and energy efficiency cost recovery), Ameren has 20 years of cash flow from its current ratebase remaining, a number that will likely erode as wealthy and industrial early adopter customers jump to renewables sooner. To remain attractive to its own customers, Ameren will need more renewables. Adding a carbon reduction incentive will help' position competitively in coming years.

D. CURRENT INCENTIVES DISCOURAGE ENERGY EFFICIENCY.

Ameren ranked as one of the worst U.S. investor owned utilities on energy efficiency savings (25th of 32)¹⁰, though even according to Ameren's Integrated Resource Plan, energy efficiency is the least expensive "source" of power. However, as long as EPS is the main focus of executives' annual compensation, they will be averse to reducing energy sales, including by energy efficiency, even if it is compensated the following year under state policies. Proponents observe that the bias against energy efficiency is partly generational, partly regional, and partly stems from lack of knowledge about energy efficiency benefits. Regardless, a carbon metric would work to balance the EPS focus and incentivize increased energy efficiency deployment.

E. CARBON REDUCTION AND MANAGEMENT RESULTS IN IMPROVED FINANCIAL PERFORMANCE

Research from the Carbon Disclosure Project and Ceres demonstrates that carbon management yields financial performance. When corporations track, manage, and reduce carbon impacts, various financial indicators improve, including improved return on equity, stronger dividends, lower earnings volatility, reduced emissions and regulatory risk (CDP S&P500 Leaders Report, 2014; note that because utility return on equity is capped by regulation, the ROE trend does not follow in the power sector). This report identifies business benefits of carbon reduction including power price certainty, customer demand for low carbon solutions, reduced overhead, and performing on climate commitments. Another analysis confirms that "firms with stronger ESG policies also enjoy increased efficiency and higher valuations than their peers."¹¹

Though the effect of an executive compensation metric for carbon reduction not yet been formally studied, it is logical that the same financial benefits that result from carbon management would be accelerated by an executive compensation incentive that encourages carbon management across the enterprise. Proponents compared data from the largest 28 U.S. investor owned utilities (as per the Ceres Benchmarking Utility Clean Energy Report, 2014¹²) with current stock prices (see Appendix B). We found that the utilities with the most renewable energy sales and energy efficiency savings also had the best

⁹ Rocky Mountain Institute. *The Economics of Grid Defection*. http://www.rmi.org/electricity_grid_defection

¹⁰ Ceres. *Benchmarking Utility Clean Energy Deployment*. (July, 2014)

<http://www.ceres.org/resources/reports/benchmarking-utility-clean-energy-deployment-2014>

¹¹ University of Pittsburg (Gillan, Hartzell, Koch, Starks). *Firm's Environmental, Social and Governance (ESG) Choices, Performance and Managerial Motivation 2020*. <http://business.pitt.edu/katz/sites/default/files/koch3.pdf>

¹² Ceres. *Benchmarking Utility Clean Energy Deployment*. (July, 2014)

<http://www.ceres.org/resources/reports/benchmarking-utility-clean-energy-deployment-2014>



stock price¹³. Further study is needed, however an executive bonus tied to carbon reductions seems likely to result in increased shareholder value.

RESPONSE TO AMEREN OPPOSITION STATEMENT

Ameren's opposition statement argues two points, first that its existing executive compensation plan is sufficient, and second that it has done enough on climate; both lack a basis.

Ameren Claim: Executive compensation is the wrong venue for carbon management, which should be integrated into long term planning, and that greenhouse gas emission reduction is a key performance measure in its planning processes.

Reality: Ameren has no stated forward looking GHG reduction goals, and made past reductions by retiring plants that were no longer economical to run, and which represented nearly \$850 million of stranded coal assets. Ameren effectively made carbon reductions accidentally.

Carbon reduction must be integrated into Ameren's executive compensation package because it hasn't been meaningfully addressed by the company otherwise. Adding a carbon reduction metric ensures that it is a priority for company officers; management metrics for low level environmental staff is insufficient. Similarly, carbon risk has been *insufficiently* accounted for in Ameren's integrated resource planning. The scoring matrix in Ameren's most recent integrated resource planning process was skewed against low carbon resources, which proponents sought and failed to persuade the company to rectify. The resulting plan plans one of the lowest adoption levels of low carbon generation and energy efficiency in the country. Executive compensation is the best location for strategic priorities of the company; to minimize risk, liability and remain competitive, Ameren must make carbon reduction a strategic priority, as it clearly is not one currently.

Ameren Claim: Retirement of coal plants and sale of merchant coal fleet demonstrates carbon action. (Company raises this point twice).

Reality: The "sale" of the company's merchant coal fleet actually was a write-off of \$850 million in debt that was stressing Ameren's balance sheet and dragging down its financial performance.¹⁴ Had Ameren not been permitted to make the sale, which hinged on regulator discretion, shareholders would have been forced to absorb the cost of the stranded assets, beleaguered by environmental compliance. Such brinkmanship could have easily resulted in the \$850 million cost being charged to shareholders, which

¹³ Appendix B

¹⁴ Chicago Tribune. *Dynegy to Acquire Illinois Power Plants from Ameren*. (March, 2013).

http://articles.chicagotribune.com/2013-03-14/business/chi-ameren-to-sell-merchant-generation-business-to-dynegy-20130314_1_coal-plant-ameren-power-plants



nearly occurred; the sale was held up for months as regulators debated whether to approve a pollution waiver the purchasing company demanded before accepting the transfer of the plants and liability.¹⁵

Ameren Claim: Ameren achieved 35% reductions in carbon from 2005 levels.

Reality: Because 2005 was near the height of coal burning in the US, and since most utilities in the US have shuttered coal plants due to costs, these cuts –while objectively good- did not result from proactive carbon management, but from a lucky save by regulators is less likely in the future. The company must be incentivized to be proactive in reducing carbon to protect shareholders from the risk it will be caught with stranded assets in the future.

Ameren Claim: The Company has energy efficiency programs (company raises point twice), and is bringing on renewables.

Reality: The company has energy efficiency programs as encouraged by the state, however its energy efficiency savings rate ranks 25th of the largest 32 of investor owned utilities in the United States¹⁶. In 2011, the company voluntarily cut a substantial portion of its own energy efficiency programs.¹⁷ According to the American Council for an Energy Efficient Economy, Missouri has significant potential to deploy energy efficiency, and its potential is largely untapped.¹⁸

As above, Ameren’s renewable energy adoption forecast is very low- 478 MW of low carbon power in the next 15 years. By contrast, Southern Company brought on more than this in 2014, in states without supportive renewable policy like Missouri and Illinois (Ameren’s operating states) have.¹⁹ At this rate, Ameren will likely be at the bottom of U.S. for peer utility renewables adoption as soon as next year. Ameren currently meets its Missouri state renewables requirements by purchasing unbundled credits -- coupons representing other people’s renewable generation, not low carbon assets of its own, likely a more costly way of complying with carbon reduction requirements.

CONCLUSION

Ameren’s business model must respond to fundamental changes in the electric power sector, however its incentive program encourages named executive officers to not respond to such changes, instead

¹⁵Chicago Busniess. *Dynegy Gets Pollution Waiver for Illinois Coal Plants*. (Nov, 2013)

<http://www.chicagobusiness.com/article/20131121/NEWS11/131129941/dynegy-gets-pollution-waiver-for-illinois-coal-plants>

¹⁶ Ceres. *Benchmarking Utility Clean Energy Deployment*. (July, 2014)

<http://www.ceres.org/resources/reports/benchmarking-utility-clean-energy-deployment-2014>

¹⁷ St.Louis Post-Dispatch. *Ameren Missouri to Slash Efficiency Programs*. (Oct, 2011).

http://www.stltoday.com/business/local/ameren-missouri-to-slash-efficiency-programs/article_41d37494-ad9c-5d50-bc40-91ea81312597.html

¹⁸ American Council for an Energy-Efficient Economy. *State and Local Policy Database*. (July, 2014).

<http://database.aceee.org/state/missouri>

¹⁹ Southern Company. *Renewables*. <http://www.southerncompany.com/what-doing/energy-innovation/smart-energy/smart-power/renewables.cshtml>



encouraging them to continue risky coal investments and minimize low carbon infrastructure investments. An executive incentive for carbon reduction would help to remedy the misalignment of executive and shareholder best interests.



Appendices

Appendix A

RESOLVED: Ameren shareholders request that the Board's Compensation Committee, when setting senior executive compensation, include metrics for reduction of Ameren's carbon output as one of the annual performance metrics for senior executives under the Company's "Executive Incentive Plan" ("EIP").

SUPPORTING STATEMENT: We believe that the long-term interests of Ameren shareholders is best served by encouraging a focus on long-term value creation and risk management.

Ameren says that it "has long recognized the need to address the climate change challenge" (Ameren website) yet no environmental performance is or has been linked with senior executive compensation. Under the current Executive Incentives Plan, Performance Metrics are weighted 90% based on earnings per share and 10% based on safety (lost work days away) performance. No consideration is given to whether or how much the company has reduced its carbon emissions during the preceding year.

The effect of failing to provide such incentives is obvious in Ameren's ongoing commitment to fossil fuels. Ameren's power mix is approximately 77% coal (Ameren 2014 CDP); indeed Ameren burns the 7th most coal and generates the 6th most carbon emissions of the top 100 electric power producers in the United States. (Ceres, 2012)

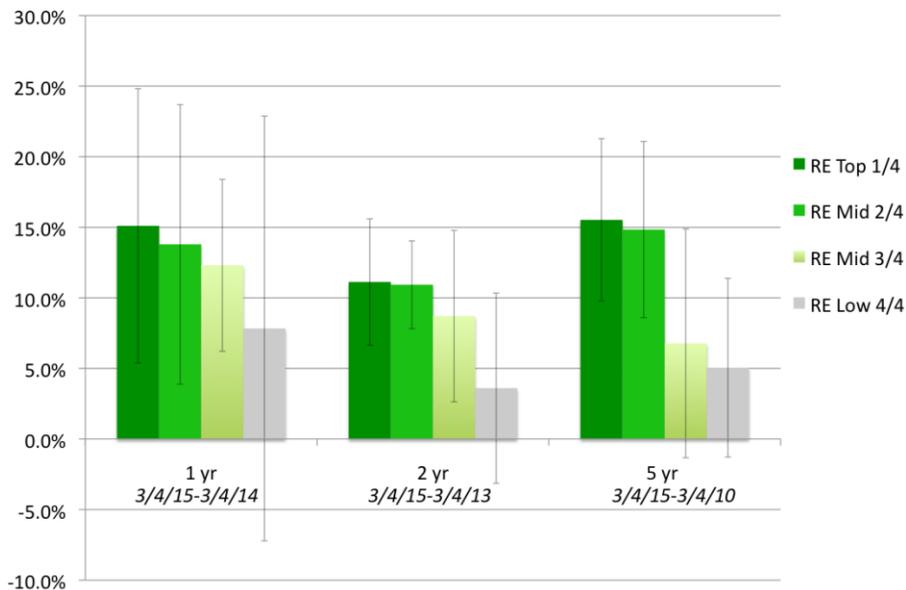
This puts our company in conflict with international findings on climate change that in order to maintain a livable climate below 2 degrees Celsius of warming "fossil fuel power generation ... is phased out almost entirely by 2100." (UN IPCC Synthesis Report, November 2014). Ameren's ongoing plans to invest billions of shareholder dollars in maintaining and potentially growing fossil fueled power capacity, and thereby sustaining carbon emissions, appears misaligned with management of these long term risks relating to climate change. Moreover, the focus on coal operations leaves the company vulnerable to environmental compliance costs that Ameren estimates at approximately \$5.9 billion in coming years (Ameren 2014 IRP).

While determining specific metrics for executive compensation rests within the discretion of the board and its compensation committee, a senior executive compensation policy incorporating progress on carbon emission reduction would help better align Ameren's values with its operations, and position the company to thrive in a future impacted by climate change.

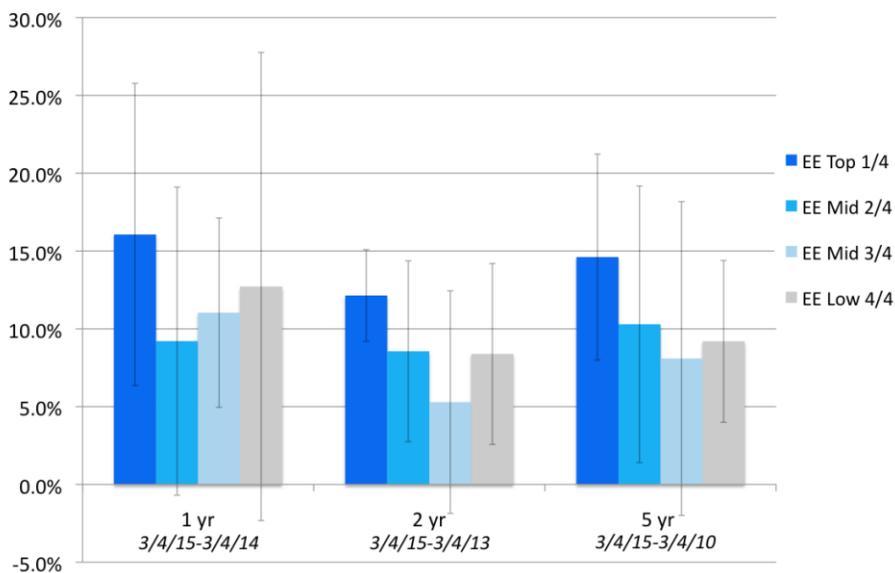


Appendix B

Average Stock Change Per Year
Top 28 IOUs – Tiers of Renewable Energy (RE) Sales



Average Stock Change Per Year
Top 28 IOUs – Tiers of Energy Efficiency (EE) Savings





Utility	Energy Efficiency Savings (%)	Renewable Energy Sales (%)	Market Cap (\$ Billions)	Stock % Change: (3/4/15-3/4/14)	Stock % Change: (3/4/15-3/4/13)	Stock % Change: (3/4/15-3/4/10)
AES Corporation	2.83	0.53	8.97	-8.90%	2.99%	9.18%
Alliant Energy	8.39	5.41	6.88	16.20%	28.55%	83.71%
Ameren	1.10	4.03	10.14	3.70%	22.70%	63.74%
American Electric Power	2.13	2.65	27.63	0.1458	18.42%	65.48%
CMS Energy	2.79	5.21	9.43	22.29%	27.33%	117.95%
Consolidated Edison	5.10	3.19	18.13	11.97%	4.47%	41.66%
Dominion	0.41	0.52	41.45	3.70%	24.81%	77.54%
DTE Energy	3.60	4.15	14.28	14.53%	20.60%	79.56%
Duke Energy	2.68	3.29	54.45	9.97%	10.20%	57.20%
Edison International	16.87	16.67	20.65	23.86%	26.28%	87.48%
Entergy	0.13	0.64	13.74	22.59%	20.13%	-2.27%
Exelon	2.69	2.97	28.05	9.46%	2.56%	-26.12%
FirstEnergy	2.05	2.26	14.45	11.28%	-15.26%	-13.03%
Iberdola	4.15	3.17	42.69	-0.41%	32.86%	-22.61%
National Grid	10.44	5.70	50.24	-3.95%	20.80%	34.15%
Northeast Utilities	16.46	6.60	16.66	20.06%	23.39%	95.97%
OGE Energy	0.96	6.59	6.33	-10.67%	6.60%	66.03%
Pepco Holdings	0.73	3.40	6.86	36.83%	30.70%	57.82%
PG&E	17.18	16.87	25.55	25.45%	24.58%	25.53%
Pinnacle West	7.98	5.35	6.97	16.69%	10.05%	68.95%
Portland General Electric	10.25	7.52	2.84	15.95%	19.85%	89.22%
PPL Corp	2.77	1.69	22.18	5.99%	8.06%	17.91%
PSEG	0.90	4.93	20.92	16.39%	25.43%	35.20%
SCANA	0.84	0.00	7.89	13.54%	11.16%	49.42%
Sempra Energy	12.54	16.86	26.59	15.28%	36.20%	114.66%
Southern Company	1.01	0.05	40.75	6.64%	-1.43%	38.02%
We Energies	10.14	5.67	11.26	14.38%	20.25%	99.80%
XCEL	10.62	18.11	17.50	15.77%	18.83%	64.43%

- Ceres & CleanEdge. *Benchmarking Utility Clean Energy: Ranking 32 of the largest U.S. Investor-owned Electric Utilities on Renewable Energy & Energy Efficiency* (July, 2014). <http://www.ceres.org/resources/reports/benchmarking-utility-clean-energy-deployment-2014/view>
- Yahoo Finance. (Accessed 3/4/15). <http://finance.yahoo.com/>