AS YOU SOW

2018 Shareholder Resolution
FirstEnergy
Request: Report on Carbon Asset Risk
Lead filer: Congregation of the Benedictine Sisters of Boerne, Texas

RESOLVED: Shareholders request that FirstEnergy, with Board oversight, produce a report, at reasonable cost and omitting proprietary information, assessing the long-term portfolio impacts of a scenario consistent with the internationally recognized Paris Agreement goal of limiting global increase in temperature to 2 degrees Celsius.

WHEREAS: Global action on climate change is accelerating. Shareholders seek to understand how FirstEnergy is planning for the risks and opportunities presented by public and private efforts to keep global temperatures within this boundary. The International Energy Agency estimates that the global average carbon intensity of electricity production will need to drop by 90 percent to meet the goal of the Paris Agreement.

The rapid expansion of low carbon technologies, including utility-scale renewables, distributed solar, storage, grid modernization, energy efficiency, and electric vehicles provide challenges for utility business models, but also opportunities.

Large customers are increasingly demanding and publicly committing to adopt low carbon energy initiatives, requiring utilities to meet this demand or lose large customers. (*See* http://there100.org/companies).

In June 2016, Moody's credit rating agency announced it would begin considering carbon transition risk while underscoring the high carbon risk exposure of the power sector. In June 2017, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures recommended that companies in the utility sector evaluate the potential impact of different scenarios, including a two degree Celsius scenario.

In addition to climate risk, fossil fuel emissions, especially from coal, create negative environmental and health impacts. For instance, in addition to air pollution created by burning coal, coal waste, known as "coal ash", can leach and spill from disposal sites, contaminating water supplies and adding to coal's costs and risks.

Across the country, market forces have caused coal assets to lose value. FirstEnergy is no exception. Although it has made limited investments in renewable energy, it retains significant investments in coal-intensive projects. Investors are concerned that FirstEnergy is not properly addressing the risk of its high investment in coal-based generation. FirstEnergy's stock value has stalled at 40 percent of its 2008 peak, and the company's 2016 annual report declared an impairment charge of $9.2 billion on stranded, long-lived assets deemed unrecoverable. In November 2016, FirstEnergy's Chief Executive Officer announced subsidiary FirstEnergy Solutions' power plants (mostly coal and nuclear) could not compete in current markets and might be sold.
(http://www.cleveland.com/business/index.ssf/2016/11/firstenergy_to_sell_or_close_p.html). This year, Standard & Poor's downgraded FirstEnergy Solutions' bond rating due to concerns related to coal plant closures. (https://www.utilitydive.com/news/amid-bankruptcy-fears-sp-downgrades-firstenergy-solutions-bond-rating/503264/).

Despite such stark financial red flags, FirstEnergy ended its "Switch is On" program designed to move toward cleaner energy sources. While FirstEnergy has adopted a strong carbon target, it

[1] https://corpgov.law.harvard.edu/2015/08/05/corporate-investment-in-esg-practices/
[2] https://feedingourselvesthirsty.ceres.org

has failed to identify a path to achieve it, and management remains focused on coal. In contrast, peer utility leaders are taking proactive steps to analyze and address carbon risks, such as SSE's post-Paris report on climate resiliency (http://sse.com/media/473275/Post-Paris_FINAL_06072017.pdf) and AEP's carbon asset risk analysis. (https://www.aepsustainability.com/environment/climate/carbon.aspx).