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When It Comes To Getting Coal-Burning Utilities to Clean Up, Investors May Have More Power Than Regulators

Ken Silverstein | Jan. 22, 2014

Should asset managers ply the companies in which they invest to be more environmentally assertive? That discussion is moving forward now that some institutional investors are pushing major coal-burning utilities to clean up their act.

By getting coal-dependent power companies, which contribute a third of all man-made carbon dioxide emissions, to rethink their generation portfolios, those money managers are making a social and environmental statement. The champions of "socially responsible investing" say that such thinking enables corporations to "do the right thing" while also benefiting their pension participants. But others counter that those professional fiduciaries are obligated to seek out the best returns and not to concern themselves with ancillary benefits.

At issue now is the decision by the New York State and Connecticut pension funds to pressure FirstEnergy FE -0.55% Corp. into moving at a faster pace when it comes to shedding dirty electricity and using cleaner fuels. Because FirstEnergy agreed to provide more transparency, the money mangers and stockholders that include As You Sow, will withdraw their shareholder resolution, according to a New York Times report. The institutional investors, which collectively manage trillions, say that such activism could prompt others utilities to take similar action.

"Investors play an important role in the companies they finance and the future their investments create," says As You Sow, in a statement. "These companies and the investment community at large can lead the way in product, technology and operational innovations — or face losses if they are unprepared for a future which will inevitably include some form of carbon restrictions."

According to Ceres CERE -3.14%, which organizes businesses and investors for climate-related matters, an additional $36 trillion in clean energy investments is needed between now and 2050. Those are the levels that the International Energy Agency has called for to limit the adverse effects of global warming.

Meantime, Bloomberg New Energy Finance says that global clean energy investment was $254 billion in 2013. That's 12 percent less than the $289 billion in 2012. It says that the drop is the result of investor concerns over whether national governments would continue to support green energy endeavors. It also said that a decline in rooftop solar panel prices is another reason. Despite that, Bloomberg says that other clean energy investments are boosting confidence, namely electric vehicles and renewable power project funds.

"There needs to be a global push to put the necessary financing vehicles and policies in place to bring capital costs down and enable the capital markets to realize clean energy's vast potential," says Mark Fulton, senior fellow for Ceres and the co-author of the Ceres report.

To be sure, not everyone agrees that institutional investors should be tossing around their weight. Critics of socially responsible investing point out that those large funds manage the retirement monies of ordinary citizens. Public pensions, for example, are allocating resources for school teachers and fire fighters, who need their professional money managers to act in their interest — and not to be concerned with making social and environmental changes.

Those who espouse such shareholder activism say, however, that their pursuits are adding corporate value. In a Forbes story, the Advisor Network says that socially responsible investments are now worth $3.74 trillion — or $1 out of every

$9 under professional management.

The evolution is occurring because activists, investors and regulators are uniting to make companies live up to higher standards. To that end, about 110 coal units since 2007 have added scrubbers that reduce pollutants that lead to acid rain and smog. They have spent $30 billion to do so, says the U.S. Energy Information Administration.

Meantime, other major retailers and industrials that include Wal-Mart, General Electric and Dow Chemical are taking up the cause of sustainability. The efforts, they collectively say, are not just environmentally beneficial but also economically prosperous. GE, for example, says that its "eco-imagination" campaign is lucrative.

"Corporations have a responsibility to communities, customers and investors to serve safely," says Erin Brockovich, an environmental activist, in a talk with this reporter. "Every company should want to invest in this idea. We also ask communities to be proactive and preventative."

Individual shareholders do not have the sway that their much-larger brethren have, which is to say, the sheer power to force companies to broaden their perspectives. Shareholders count. But so do those throughout the supply chain. Certain institutional investors are taking that approach and leveraging their influence by pressuring enterprises to improve their environmental performance. FirstEnergy now knows this firsthand. Other utilities, though, will likely experience it.

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