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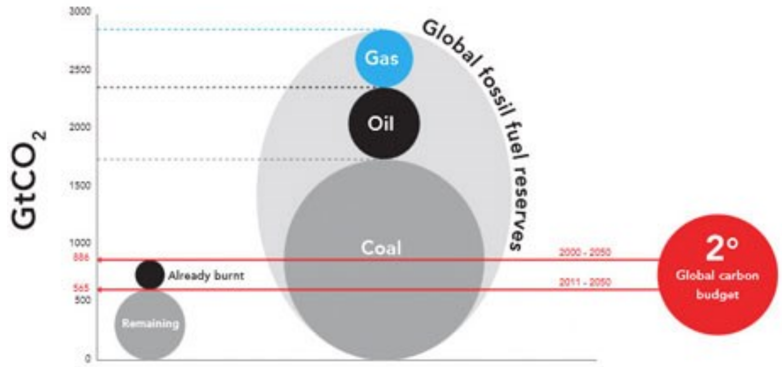
Electric Utilities Must Reduce Their Climate Risks

As extreme weather in the US proves costly for electric power utilities, investors demand they address their climate impact

Corinne Bendersky | Apr. 16, 2013

In 2011 and 2012, 43 states were affected by extreme weather events that racked up more than $1bn in damage each. Electric power utilities were often on the front lines of weather-related destruction. From 2011's summertime outages in the Midwest to Superstorm Sandy's path of destruction across the Northeast, utility companies such as Consolidated Edison, CL&P and PSEG are facing hundreds of millions of dollars of storm-related costs.



Fossil fuel power plants are among the greatest greenhouse gas emitters in the US, accounting for 34% of emissions. While driving climate change it also has to bear its physical impacts. Photograph: Carbon Tracker

But well before last year's string of devastating storms, unprecedented droughts and record high temperatures, investors had raised the issue of climate risk with electric utilities. My organisation, As You Sow, has led dialogues with coal-fired electric utilities for several years, first on the financial risks of coal and now on the financial risks of climate change.

Utilities are in a unique position on the issue of climate change. Our nation's fossil fuel power plants are among the greatest greenhouse gas emitters, accounting for 34% of US emissions, which drive climate change. At the same time, power providers bear the physical impacts of climate change, especially from drought and water stress that threaten power outage and lost power sales.

The electric power sector is one of the largest users of fresh water in the country, second only to agriculture. During times of drought or water stress, when adequate quantities of water are not available, or are too warm to efficiently cool power systems, utilities may be forced to reduce power production or shut down. With climate change expected to exacerbate droughts, induce more frequent and severe heatwaves and change rainfall patterns, As You Sow and many other investors agree that electric utilities should take action to mitigate these critical threats.

In 2012, in the midst of the most widespread drought in 60 years and a scorching heatwave, As You Sow filed shareholder proposals asking two large electric utilities to address the link between water and energy in the face of a changing climate. Shareholder proposals are a proven tool for bringing corporate management to the table. After submitting a resolution to Ameren Corp, a large Midwestern electric utility, we worked directly with members of the executive management team to discuss the company's exposure to water risks and work together on a solution.

Through this engagement, Ameren committed to complete the Carbon Disclosure Project water questionnaire, an in-depth water risk reporting guide, and to develop strategies and goals to address water risk in its 2013 corporate social responsibility report. By analysing risk exposure and developing mitigation strategies, the company will be better prepared to manage and avoid water challenges as they arise.

The next big risk on the horizon for electric utilities is carbon regulation. Signs are pointing to a path to price carbon, from President Obama's inaugural and State of the Union remarks to his selection of Gina McCarthy as the new EPA administrator. As You Sow will continue to work with electric utilities to address not only the physical impact climate change will have on their operations, but the financial risks of operating in a carbon-constrained world.

So, why do investors file resolutions? Active investors can serve as "canaries in the coal mine", utilising their ownership stake in companies to highlight financial risks on the horizon and to work directly with management to mitigate them. We want our companies to actively address and mitigate future risks so they will continue to prosper in our evolving economy.