



## At A Glance *Shareholder Resolutions: Evaluating Corporate Climate Change Risks*

### Introduction

Greenhouse gas emissions and climate change are increasingly important concerns for governments and businesses across the globe. In response to the potential for mandatory US controls on greenhouse gas emissions—as well as emerging controls at the state and regional levels—shareholders have introduced resolutions that call for US companies to describe how they are preparing for the possibility of a reduced greenhouse gas future. Although focused on climate change, these resolutions also raise issues related to air emissions (particularly relevant in light of recent regulations on emissions of nitrogen oxides, sulfur dioxide, and mercury).

These resolutions—which have been coordinated by CERES, a coalition of investor and environmental groups—ask companies to review their practices with respect to climate change and air emissions. The issues raised by these resolutions include:

- Concern that the company does not have the institutions and related procedures in place to evaluate properly the financial consequences of air emissions and potential climate change regulations.
- Concern that the company does not take appropriate actions to maximize shareholder value in light of current environmental regulations.
- Concern that the company is not taking appropriate actions to reduce carbon dioxide emissions in anticipation of potential future regulatory requirements.

### Client Experience

#### **A Comprehensive Review of TXU's Policies**

In September 2004, NERA completed a White Paper on behalf of TXU Corporation that addressed the three issues noted above. NERA staff met extensively with TXU personnel in order to provide a comprehensive review of TXU's policies. The independent review concluded that TXU has the appropriate institutions, methodologies, and policies in place for dealing with air emissions in general and climate change in particular. The White Paper also outlined the circumstances under which it would be appropriate for TXU to take specific action to reduce emissions of greenhouse gases.

CERES has coordinated 31 shareholder resolutions in 2005. Many of these resolutions seek independent reviews of companies' approaches to dealing with the rising regulatory and competitive pressures to reduce greenhouse gas emissions and deal with air emissions issues. The resolutions were submitted to companies in a variety of sectors, including electric power, oil and gas, manufacturing, real estate, auto, and financial services.

The White Paper prepared for TXU gives NERA a special familiarity with the issues raised by these resolutions. We also have considerable expertise with markets for electricity and air emissions, as well as extensive familiarity with both proposed legislation and existing regulations governing climate change. This expertise, coupled with the credibility we have established through years of experience in academia, government, and consulting, uniquely qualifies NERA to assist companies in dealing with the issues raised by these shareholder resolutions.

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## Our Practice

NERA personnel are widely recognized as leading experts in economics, energy, and environmental issues. We have considerable expertise analyzing market characteristics and how they affect firm and sector performance. In addition, our experience in the energy sector gives our experts important insights into the effects of environmental regulations on firms.

Our economists are also highly familiar with existing emissions trading programs, the approach widely used to regulate air emissions and now greenhouse gas emissions. NERA's Environment Practice has been involved in all of the major emissions trading programs to date in the United States, including the RECLAIM program for Southern California and the Acid Rain Trading Program. We are currently assisting in the design and evaluation of the European Union Emissions Trading Scheme and the UK Emissions Trading Scheme. Our understanding of market structure, regulatory incentives, and the economic instruments relevant to most climate change policies can form a key component of firm and industry strategies for dealing with greenhouse gas challenges.

NERA's advisory services build on expertise gained as economists at the US President's Council of Economic Advisors, the World Bank, the UK Department of Transport and HM Treasury, the US Environmental Protection Agency, as well as from many years' experience in industry. Our perspectives have been published in prominent periodicals including *The Electricity Journal*, *American Economic Review*, *Journal of Environmental Economics and Management*, *Transportation Research*, *Land Economics*, and *The Review of Economics and Statistics*.

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## Publications

*TXU Activities Regarding Actual and Potential US Air Emissions and Climate Change Policies*, for TXU Corporation

*Assessing the Financial Consequences to Firms and Households of a Downstream Cap-And-Trade Program to Reduce U.S. Greenhouse Gas Emissions*, in *A Climate Policy Framework: Balancing Policy and Politics*. John A. Riggs, ed., Washington D.C.: The Aspen Institute

*Emission Trading in the U.S.: Experience, Lessons, and Considerations for Greenhouse Gases*, (co-author). Prepared for the Pew Center on Global Climate Change

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## About NERA

NERA Economic Consulting is an international firm of economists who understand how markets work. We provide economic analysis and advice to corporations, governments, law firms, regulatory agencies, trade associations, and international agencies. Our global team of more than 500 professionals operates in 21 offices across North and South America, Europe, Asia, and Australia.

NERA provides practical economic advice related to highly complex business and legal issues arising from competition, regulation, public policy, strategy, finance, and litigation. Our 45 years of experience creating strategies, studies, reports, expert testimony, and policy recommendations reflects our specialization in industrial and financial economics. Because of our commitment to deliver unbiased findings, we are widely recognized for our independence. Our clients come to us expecting integrity; they understand this sometimes calls for their willingness to listen to unexpected or even unwelcome news.

NERA Economic Consulting ([www.nera.com](http://www.nera.com)), founded in 1961 as National Economic Research Associates, is a unit of Mercer Specialty Consulting, an MMC company.

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