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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

Constructive Engagement Shows Results

Investors are entitled to a seat at the table of corporate governance. This is true of individuals and institutions alike. From the State's perspective, our ability to engage with our investment partners is an important tool to direct larger issues of corporate responsibility.

The State Treasurer's Office partners with Ceres, an "advocate for sustainability leadership," which connects a network of "investors, companies and public interest groups" to promote a "healthy economy."

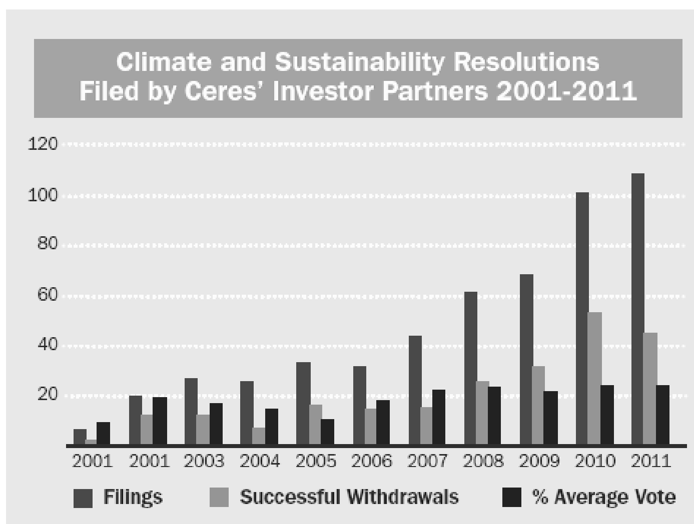
In 2003 the State Treasurer's Office joined the Ceres' Investor Network on Climate Risk (INCR) to grow awareness of business models and their environmental impacts.

Vermont's partnership with Ceres has shown results.

In addition to generating widespread media attention in local, national and international markets, Ceres' shareholder actions have advanced proactive environmental positions that reflect the Vermont values of sustainability, responsible corporate decision making, and clean energy alternatives.

As evidenced in the chart to the right, the number of shareholder resolutions filed by Ceres' investor partners has steadily increased, and has applied pressure to key sectors, modifying otherwise damaging corporate practices.

The success of INCR and other constructive engagement initiatives is demonstrated in the number of successful initiatives Ceres' shareholders undertook from 2008-2010: according to independent research, companies adopted Ceres' shareholder recommendations with a 65% rate of complete compliance; 80% complied in part (Attachment A).



See Attachment A for more

Cabon Asset Risk Campaign

In September 2013, in my capacity as State Treasurer, I joined with the VPIC board as a signatory to Ceres' Carbon Asset Risk Campaign, an initiative to encourage oil/gas, coal, and utility companies to conduct risk assessments of fossil fuel extraction and its long-term implications.

45 of the largest fossil fuel companies were engaged with letters to:

> "1) prevent shareholder capital from being wasted on developing high-carbon, high-cost fossil fuel reserves that cannot be burned if the world is to avoid catastrophic climate change; and
>
> 2) drive fossil fuel companies to acknowledge and plan for the escalating physical impacts of climate change such as sea level rise, stronger storms and more severe droughts."

The Carbon Asset Risk Campaign has increased the number of company engagements Ceres has undertaken. According to a February 25, 2014 update, INCR members have recently engaged with "AEP, Apache, Chevron, Devon, ExxonMobil, FirstEnergy, Hess, Peabody Energy, Southern Company, and Suncor."

Further, Shareholder resolutions "have been filed with Anadarko, Chevron, CONSOL Energy, Devon, ExxonMobil, FirstEnergy, Hess, Southern Company, and Peabody Energy."

The Carbon Asset Risk Campaign has elevated the message that pension fund managers and their partners are willing participants in corporate governance. Ceres has received responses from ExxonMobil, FirstEnergy, Peabody Energy, and Southern Company.[1]

[1] For more on the Carbon Asset Risk Campaign, see Attachment B.

Ceres

www.ceres.org

INVESTOR POWER

SHAREHOLDER SUCCESSES ON CLIMATE, ENERGY & SUSTAINABILITY

FOR MORE THAN A DECADE, Ceres has worked with a network of leading institutional investors to press companies on the risks and opportunities from climate change and broader sustainability issues.

Through shareholder engagement, these investors have spurred hundreds of companies to make significant climate and energy related commitments that range from disclosing and reducing greenhouse gas (GHG) emissions, to investing in energy efficiency and renewable energy, to abandoning plans to build coal-fired power plants.

The initiative has grown steadily over the past decade, with shareholder resolutions filed rising from a handful in 2001 to 111 in 2011. Some of the nation's largest public pension funds, state treasurers and comptrollers are involved in the effort, along with labor unions, foundations, and social and religious investors affiliated with the Interfaith Center on Corporate Responsibility.

Climate and Sustainability Resolutions Filed by Ceres' Investor Partners 2001-2011

"Environmental, social and governance factors can affect the risk and return performance of investment portfolios to varying degrees across companies, sectors, regions and asset classes. Proxy voting rights must be diligently exercised as an aspect of fiduciary duty."

— Anne Simpson, senior portfolio manager of the California Public Employees' Retirement System (CalPERS), the nation's largest public pension fund.

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A RECORD OF INVESTOR ACHIEVEMENT

Over the past three years, 230 sustainability-focused resolutions were filed by investors in Ceres' network. Many of these achieved positive outcomes. Nearly half, or 110 resolutions, were withdrawn by investors after the companies agreed to address their issues of concern.

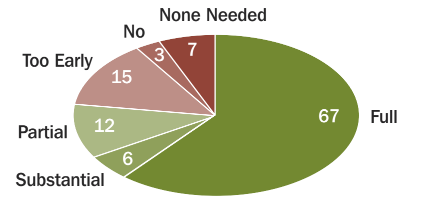
To evaluate the effectiveness of these agreements, Ceres hired David Gardiner and Associates to assess company follow through on commitments secured from 2008-2010. The results are striking. More than 80 percent of the 110 agreements resulted in at least partial fulfillment by the companies, while 65 percent were completely fulfilled. Many of these agreements resulted in tangible environmental improvements, such as those described in the case studies below.

Investors have also scored victories when resolutions have gone to a vote at companies' annual meetings. Average voting support for resolutions has risen steadily over the past decade and is now at about 24 percent. More strikingly, a third of the resolutions going to a vote are now getting at least 30 to 40 percent support. A handful achieved majority support. These higher votes frequently elicit company action.

Sample Company Responses to High Shareholder Resolution Votes

Company	Proxy Season	Vote	Lead Filer	Company Response
Idacorp	2009	52%	As You Sow	Set GHG reduction goal of 10-15% by 2013, announced its first wind energy projects, began a solar generation feasibility study.
Layne Christiensen	2010	60%	Walden Asset Management	Released comprehensive sustainability report addressing climate change and water scarcity
Energen	2010	49.5%	Miller Howard Investments	Took steps to decrease methane emissions, additives used in fracking process and water usage.

Company Follow Through on Agreements Negotiated by Investors, 2007-2010 Withdrawals



More than 75% of the 111 withdrawls were fully or substantially implemented.

SHAREHOLDER RESOLUTION CASE STUDY

Avon, Hershey and General Mills Commit to Source 100% Certified Sustainable Palm Oil

Indonesia is the world's third largest greenhouse gas emitter due to rampant destruction of carbon-storing forests and peat lands. One of the key drivers for this deforestation is the campaign to replace trans-fat oils with healthier palm oil. As a result, ever-expanding palm plantations are devouring large swaths of forestland to meet demand, especially in Indonesia and Malaysia, where 85 percent of the world's palm oil is grown.

Unsustainably-produced palm oil presents reputational, supply chain and even regulatory risks to food, cosmetics and other companies that use the oil. Environmental and consumer groups, for example, have launched highly successful campaigns against Nestle and the Girl Scouts.

Concerned about such risks in their portfolios, investors filed resolutions with Avon and Hershey, and began a dialogue with General Mills, asking them to purchase 100 percent certified sustainable palm oil. As a result:

- ***Avon** committed to purchase book and claim certificates through GreenPalm, an organization that supports sustainably grown palm oil, to offset 100 percent of their uncertified palm oil consumption.*
- ***Hershey** and **General Mills** agreed to purchase 100 percent certified sustainable palm oil from the Roundtable for Sustainable Palm Oil (RSPO) by 2015.*
- *While the consumer campaigns against companies like Nestle influenced these three companies, it was the shareholder resolutions that spurred them to act.*

As Laura Campos, director of shareholder activities at the Nathan Cummings Foundation, one of the lead investors filing the resolutions puts it, "Shareholder resolutions are often very effective at getting a company to make a measurable public commitment to address an issue that it may have been thinking about for some time."

As a result, these three market giants are now committing to more stringent standards of RSPO-certified sustainable palm. Their actions will help spur their competitors to follow their lead.

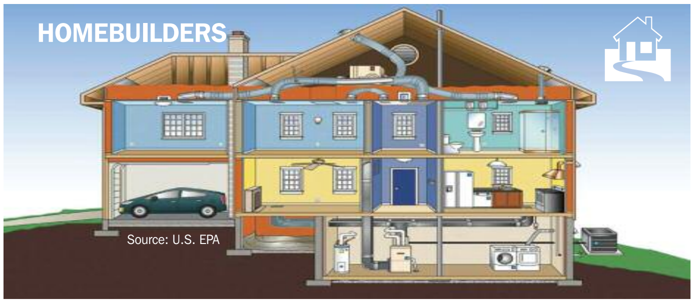
SHAREHOLDER RESOLUTION PROCESS

Shareholder voting is a key component of good corporate governance, and a primary means for investors to compel companies they own to engage in more responsible business practices.

Through a process regulated by the SEC, shareholders file resolutions that they want to bring to a vote at companies' annual meetings. Frequently, the resolutions spur robust engagement between investors and the company prior to the annual meeting. In many cases the company will agree to address investor concerns in exchange for a withdrawal of the shareholder resolution. In that way, the company responds to investor concerns without the resolution going to a formal vote.

If an agreement is not reached prior to the meeting, and the company does not contest the resolution, it goes to a vote. Votes are generally non-binding, but often prompt a response from management, especially if support is above 30 percent.

SHAREHOLDER RESOLUTION CASE STUDY



Nation's Largest Homebuilders Slash Energy Footprint of New Homes

Home energy use accounts for 21 percent of U.S. greenhouse gas emissions, but smart energy efficiency measures can substantially reduce those emissions. With strong encouragement from investors, leading homebuilders are catching on that cutting the energy footprint of their homes can attract homebuyers in an increasingly environmentally conscious and cash-tight consumer market.

In 2006, investors began filing resolutions with some of the nation's largest homebuilding companies, including KB Homes, Pulte Homes and D. R. Horton. The resolutions requested that the companies reduce greenhouse gas emissions from their products and operations.

KB Homes had already begun to improve the energy efficiency performance of its homes, but investor dialogue and support from Calvert Asset Management spurred it to take deeper, more meaningful action.

The company has developed a first-of-its-kind energy label that informs homeowners of the estimated monthly energy cost of a new house. It also committed to build only ENERGY STAR qualified homes and began releasing comprehensive annual sustainability reports.

"The new homes we are building today deliver more than quality, beauty and functionality—these homes can also help our homeowners save money on their utility bills while protecting the environment," said KB Homes CEO Jeffrey Mezger.

By 2010, 90 percent of the new homes built by KB were ENERGY STAR qualified and estimated to be 15 percent more energy efficient than homes built in 2004. The 62,000 ENERGY STAR homes built by KB Homes over the last 10 years resulted in energy savings equivalent to removing about 29,400 automobiles from the road. Homeowners also saved $26 million on their utility bills.

Investors have achieved similar progress with Pulte, as a result of shareholder engagement. In 2008 the company joined the Department of Energy's (DOE) "Builder's Challenge" program which challenges companies to build homes that are at least 30 percent more energy efficient than standard homes. In 2009, DOE recognized Pulte for building the most high performance homes.

SHAREHOLDER RESOLUTION CASE STUDY

Natural Gas Companies Improve Hydraulic Fracturing Safety

Natural gas wells are being drilled across much of the U.S., from Colorado to Pennsylvania to Texas. With hydraulic fracturing technology opening up vast new reserves, many view natural gas as a cheap, plentiful and cleaner alternative to coal and nuclear power. But hydraulic fracturing, or "fracking," has its drawbacks—notably water and air contamination, blow-outs from poorly-constructed wells and inadequate regulatory oversight.

Though natural gas is an important "bridge" fuel that can smooth the transition to cleaner forms of energy, its environmental and safety risks must be addressed.

In 2011, Ceres investor partners, in collaboration with the Investor Environmental Health Network and Green Century Capital Management, filed shareholder resolutions with nine oil and gas companies pressing them to disclose their plans for managing water pollution, chemicals use and other risks associated with the controversial practice. Ceres also pressed the Securities and Exchange Commission for better corporate disclosure on the issue.

Many of the measures investors seek make good financial sense and companies are beginning to respond:

- ***Williams Companies** captures and sells methane gas that otherwise would be vented to the atmosphere or flared (burned off). EPA estimates that these so-called "green completions" can pay back their costs in about one year.*
- ***Range Resources** reports saving approximately $200,000 per well from wastewater recycling and reuse in the Marcellus Shale region of Pennsylvania. Similarly, Chesapeake Energy reports annual savings of $12 million from recycling and reuse of wastewater in the Marcellus Shale region.*
- ***Chesapeake Energy** reports it has eliminated 25 percent of the additives used in fracturing fluids in most of its shale activity.*
- ***Energen** reduced their accumulated methane emissions by two billion cubic feet and is piloting a program to recycle wastewater.*

These company actions are a step in the right direction, especially while states and the federal government develop regulations and sufficient oversight to ensure fracking's safety.

Ceres

Carbon Tracker Initiative

Carbon Asset Risk Initiative

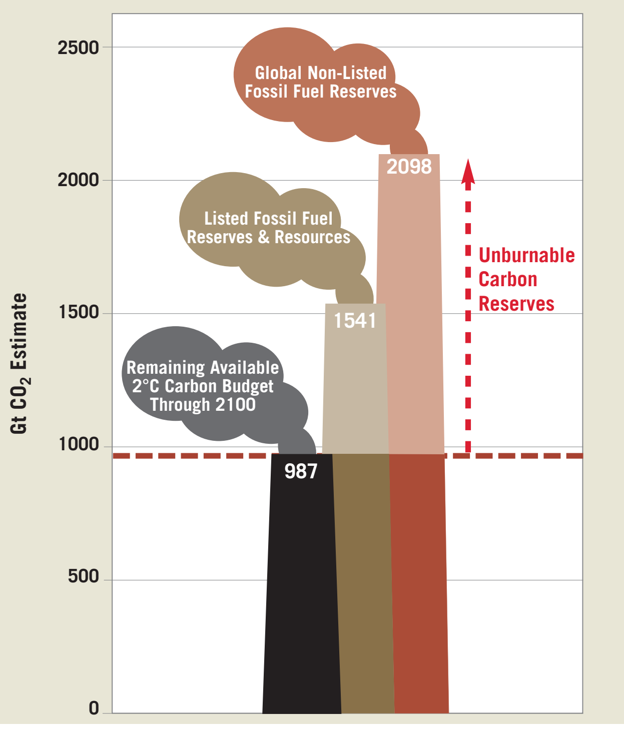
In September 2013, an international group of 75 institutional investors representing more than $3 trillion in assets launched the Carbon Asset Risk Initiative—a coordinated effort to spur 45 of the world's largest fossil fuel companies to address the financial risks posed by climate change. Coordinated by Ceres and Carbon Tracker with support from the Global Investor Coalition on Climate Change, the initiative aims to 1) prevent shareholder capital from being wasted on developing high-carbon, high-cost fossil fuel reserves that cannot be burned if the world is to avoid catastrophic climate change; and 2) drive fossil fuel companies to acknowledge and plan for the escalating physical impacts of climate change such as sea level rise, stronger storms and more severe droughts.

Could fuel reserves become stranded assets?

The world's fossil fuel companies hold at least three times more proven reserves of oil, gas, and coal than can be burned if we are to achieve the international goal of limiting global warming to below 2˚C unless Carbon Capture and Storage (CCS) technology becomes commercially viable. Yet, in 2012 alone, the 200 largest fossil fuel companies spent $674 billion on finding and developing even more fossil fuel reserves, raising concern that shareholder capital is being wasted on reserves that are likely to become stranded assets in a world that transitions away from carbon-intensive fossil fuels. In fact, financial analysts are already questioning the future of many fossil fuel companies based on existing or reasonably foreseeable market forces.

A significant portion of the world's fossil fuel reserves will need to remain in the ground in 2050 if we are to avoid catastrophic climate change. Fossil fuel companies, however, continue to develop reserves that may never be used.

Carbon Assets at Risk



Understanding the market forces behind carbon asset risk

An international climate change treaty to achieve the 2˚C goal would undoubtedly accelerate the risk of unburnable carbon, but the reality is that the risks are here now. There is growing uncertainty that future energy markets will look like the past, due to structural changes in energy systems and major shifts like the Chinese economy slowing down and movement toward cleaner energy sources. Here are some of the market forces that pose a threat to fossil fuel reserves.

- **Coal demand is in decline in several markets, especially the U.S.,** due to a combination of pollution and efficiency standards, and competition with natural gas and renewables. This has caused a steep decline in a number of coal companies' market value.
- **Oil demand could peak globally as soon as 2020,** putting downward pressure on oil prices, due to a combination of vehicle fuel efficiency standards, and competition with natural gas and electric vehicles.
- **Oil production is getting more expensive** with most new oil projects requiring breakeven oil prices in the range of $80-100 per barrel. Because oil companies are spending more to produce less, their profitability has been declining. Investors have been unhappy with this trend and are now asking companies to scale back their spending and return more capital to shareholders.
- **Renewable energy is reshaping the electric power sector,** accounting for the majority of new electricity capacity in recent years. About $250 billion was invested in clean energy last year. Of the $10 trillion projected investment in power generation through 2035, 71% is expected to be in clean energy. Alternative energy sources continue to get more cost competitive all the time.
- **Pollution, efficiency and climate change policies are adding up.** A global climate change treaty is necessary to avoid catastrophic levels of climate change and is still very much a possibility. Demand for fossil fuels, however, is already being affected by policies related to air quality, energy efficiency, renewable energy and subsidy reform—and more efficient homes, cars and factories are already using less fuel and electricity.

For more information or to get involved:

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Investors' practical approach to assessing risks

Through the Carbon Asset Risk Initiative, investors have asked fossil fuel companies to assess the following under both a business-as-usual scenario, and a low-carbon scenario consistent with reducing GHG emissions by 80% by 2050 to achieve the 2˚C goal:

- The viability of capital expenditure plans for finding and developing new reserves
- The risk that some existing unproduced reserves will become stranded assets
- The physical risk that climate change poses to operations
- The impacts of these risks on the current and projected workforce

Requesting this assessment from fossil fuel companies is an important step for investors to understand the exposure of their portfolios to carbon asset risk. Investors have requested detailed responses to their inquiries from the companies by their next shareholder meetings in 2014. In the meantime, investors are engaging with the companies regarding their business plans and the assessment process.

Building the energy companies of the future

If fossil fuel companies are to remain successful as the world transitions to a low-carbon future, they will need to evolve. This shift will look different for each company, and will not happen overnight—yet it is clear that business models will need to be revised to reflect a future that is less dependent on carbon-intensive energy. Companies could evolve, and may already be taking action, in some of the following ways.

- Mining companies could invest capital to accelerate the commercial viability of CCS. Diversified mining companies may redirect capital to other commodities and freeze new coal activity. Pure coal companies may return funds to shareholders rather than invest in future production which has no certain market.
- Oil companies could focus on fewer projects at the low end of the cost curve which are less sensitive to price changes, or return capital to investors.
- Utilities need to respond to how the energy generation mix is changing and create the future infrastructure that will be required for a low-carbon economy.
- All companies can diversify their business strategies toward cleaner, lower-carbon energy sources.

"Proxy voting is the sleeping giant of the investment world: an enormously powerful tool if used thoughtfully to shape corporate behavior."

— Julie Fox Gorte, senior vice president for sustainable investing at PaxWorld Management.

"If our portfolio companies are to provide long-term shareowner value, they need to be proactive, not reactive, in addressing climate change and other environmental and social issues. The excessive focus on short-term profits at the expense of all else has proven disastrous and has led to widespread financial issues."

— Jack Ehnes, CEO of the California State Teachers' Retirement System (CalSTRS)

SHAREHOLDER RESOLUTION CASE STUDY

Electric Power Utilities Abandon Plans for Dozens of New Coal Plants

The financial risks of new coal-based power generation have been a major focus of investor proxies in recent years.

From 2005 to 2010, when utilities were proposing to build more than 100 new coal plants, investors filed dozens of resolutions asking hard questions about the financial risks of operating these plants once carbon-reducing regulations take hold.

Investors such as the Connecticut Treasurer's Office feared these plants were risky investments that could leave companies with stranded assets—coal plants that were too costly and could not meet critical environmental requirements. One of the most prominent examples was TXU, which proposed to build 11 new coal plants in Texas. Investors filed shareholder resolutions with TXU, raising a range of concerns about the company's ambitious plans. Facing extensive opposition, TXU eventually cancelled plans for 8 of the 11 plants.

Shareholders raised similar concerns with numerous other companies proposing new coal plants, such as Sempra, Dynegy, NV Energy, CMS Energy and Dominion. This shareholder engagement—which raised issues of material risk with companies—contributed to the cancellation of dozens of coal plant proposals, including the recent announcement by CMS Energy to abandon its plan to build a new coal plant in Michigan. The New York City and New York State Comptrollers had encouraged CMS to reconsider its coal plant proposal and commit to a greenhouse gas reduction target. With the dramatic decrease of new coal plant proposals over the past few years, investors are now focusing on how power companies are reducing risks associated with their existing fleets of coal plants, such as those that will be impacted by Clean Air Act regulations for mercury and other air pollutants.

LOOKING FORWARD

Resolutions being filed by our investor partners are growing increasingly more varied, ranging from water scarcity risks for utilities and food producers, to worker safety issues at oil refineries, to integrating sustainability metrics into executive compensation. Ceres will continue working with investors as they tackle a broader mix of environmental, social and governance factors affecting the risk and return performance of investment portfolios.

Attachment C

AS YOU SOW

FOR IMMEDIATE RELEASE: Jan 15. 2014

CONTACT: Andrew Montes, (510) 735-8144, amontes@asyousow.org
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DiNapoli and Investor Group Reach Shareholder Agreement With FirstEnergy

Company will Report on Effort to Reduce Greenhouse Gas Emissions

FirstEnergy, an Ohio-based energy producer, has agreed to produce a comprehensive report on the company's plan to reduce greenhouse gas emissions, New York State Comptroller Thomas P. DiNapoli announced today. As a result, a shareholder resolution co-filed by DiNapoli, Connecticut Treasurer Denise L. Nappier on behalf of the Connecticut Retirement Plans and Trust Funds, and investment group As You Sow has been withdrawn.

"FirstEnergy is taking important steps today for shareholder value and the environment by looking holistically at how climate change is affecting the company over the long term," DiNapoli said. "We look forward to working with FirstEnergy as it implements its plan and will continue to engage with our portfolio companies to reach similar agreements. Companies are enhancing long-term shareholder value when they prepare for future regulations that reduce greenhouse gas emissions."

The shareholder resolution called on the company to prepare a report on policies the company could soon adopt to reduce its greenhouse emissions. FirstEnergy was also asked to consider innovative technologies and strategies for energy generation, including modeling the practices and policies of other utilities in the United States and worldwide.

In its agreement letter dated Jan. 9, FirstEnergy wrote that it:

> "...intends to incorporate information, as applicable, on additional policies that the Company could adopt and additional actions the Company could take to reduce its greenhouse gas emission in connection with President Obama's goal of an 80 percent reduction in greenhouse gas emissions into our Sustainability Report, which we expect will be made available on our website by October 1, 2014."

The company pledged to:

- Examine its actions to reduce C02 emissions and compare them to President Obama's goals;
- Review the age and life of its existing fossil fleet and future replacement generation drivers; and
- Research how standards of performance for greenhouse gas emissions from new stationary sources and the regulation of carbon pollution from existing power plans under the Clean Air Act affect the company.

"As the principal fiduciary of Connecticut's pension plans and a shareholder, I have a responsibility to make sure that companies in which we invest examine the potential liability of climate risk. The agreement by FirstEnergy to prepare a report signals their understanding of the seriousness of our resolve and of the importance of determining the impact of climate change on its bottom line. We will continue to monitor First Energy to ensure it is taking appropriate steps toward long-term sustainability," said Nappier, principal fiduciary of the Connecticut Retirement Plans and Trust Funds.

"The withdrawal of this proposal demonstrates that companies are starting to realize that investors are serious about climate change and want to see progress towards major greenhouse gas reductions. We have observed that companies that aggressively pursue climate solutions are some of the most profitable and admired in the sector. It is important to us that FirstEnergy is well positioned to thrive in a low carbon economy, and we look forward to the report," said Amelia Timbers, Energy Program Manager at As You Sow.

Since 2010, DiNapoli has reached agreements with 12 companies, including Dunkin' Brands, Arch Coal and DTE Energy on ways to reduce corporate climate impacts.

# # #

Attachment D

Ceres is a Top Rated Charity

You are here: Home »Investor Network »Shareholder Resolutions »FirstEnergy GHG Reduction Policies

FirstEnergy GHG Reduction Policies

Company	FirstEnergy Corp.
Filer	New York State Comptroller
Year	2014
Sector	Electric Power
Subject(s)	Climate Change; Energy Efficiency (utilities); Greenhouse Gas Emissions; Renewables
Resolved Clause Summary	Adopt policies to reduce emissions in line with U.S. goals and address carbon asset risk
Status	Filed

WHEREAS:

The United States and 114 other nations have signed the Copenhagen Accord on climate change, which recognizes that “the increase in global temperature should be [kept] below two degrees Celsius,” to avoid potentially devastating societal harm, and “deep cuts in global emissions are required” in order to do so.

In its 2012 Annual Energy Outlook, the International Energy Agency (IEA) states, “No more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2 °C goal...” and, “Almost two-thirds of these carbon reserves are related to coal...” The Obama administration has set a goal of 80% reduction in carbon emissions by 2050.

In May 2011, a National Academy of Sciences report warned that the risk of dangerous climate change impacts grows with every ton of greenhouse gases emitted. The report also emphasized that, “the sooner that serious efforts to reduce greenhouse gas emissions proceed, the lower the risks posed by climate change, and the less pressure there will be to make larger, more rapid, and potentially more expensive reductions later.”

PwC’s 2013 Global Power and Utilities Survey found that, “Many in the industry expect the existing power utility business model in their market to transform or even be unrecognisable in the period between now and 2030. 94% predict complete transformation or important changes to the power utility business model.”

A 2013 report by the Edison Electric Institute (EEI) stated that, “technological and economic changes are expected to challenge and transform the electric utility industry. These ‘disruptive challenges’ arise due to a convergence of factors, including: falling costs and enhanced focus on distributed generation and other distributed energy resources (DER); increasing customer, regulatory, and political interest in demand-side management technologies (DSM)... The timing of such transformative changes is unclear, but with potential for technological innovation (e.g., solar photovoltaic or PV) becoming economically viable due to this confluence of forces, the industry ...must proactively assess the impacts and alternatives available to address disruptive challenges..”

A 2013 report by Citi estimates that of the $9.7 trillion anticipated investment in power generation globally by 2035, 71% will be invested in renewables or clean technologies.

RESOLVED:

Shareholders request that the company prepare a report, reviewed by a board committee of independent directors, on policies the company could adopt to take additional near-term actions to reduce its greenhouse gas emissions consistent with the national goal of 80% reduction in greenhouse gas emissions by 2050. The report should be published by October 1, 2014 at a reasonable cost and omit proprietary information.

Supporting statement:

Such policy options shall consider innovative technologies and strategies for energy generation, such as placing greater emphasis on distributed clean energy sources or strategies to deploy centralized renewable energy generation in the Company's geographic region, as well as consideration of the most advanced practices and policies of utility peers in the US and worldwide.