



Climate Change

AES

March 31, 2017

| Ticker | Exchange | Meeting Date | Record Date | Annual Meeting Location |
|--------|----------|--------------|-------------|-------------------------|
| AES | NYSE | 4-20-17 | 2-27-17 | Arlington, Virginia |

Agenda

| Item | Proposal |
|------|----------------------------------------------------------------|
| 1 | MGT: Elect directors |
| 2 | MGT: Advisory vote on executive compensation |
| 3 | MGT: Advisory vote on frequency of executive compensation vote |
| 4 | MGT: Ratify auditors |
| 5 | SH: Amend proxy access by-laws |
| 6 | SH: Report on climate change |

Si2 Briefing

[Environment \(Climate Change\)](#)

Report Author

[Sara E. Murphy](#)

Links

[2017 Proxy Statement](#); [2016 Form 10-K](#)

Resolved Clause

Shareholders request that AES, with board oversight, publish an assessment (at reasonable cost and omitting proprietary information) of the long term impacts on the company's portfolio of public policies and technological advances that are consistent with limiting global warming to no more than 2 degrees Celsius over pre-industrial levels.

Lead Proponent

Mercy Investment Services

Vote History

The SEC [rejected](#) a company challenge, which unsuccessfully argued the proposal is moot, too vague and misleading, as it refers to an external standard not described in the proposal. The resolution is a resubmission that earned 42.2 percent in 2016.

Summary

Mercy Investments believes that although AES recognizes climate change presents material risks, it does not disclose enough information for investors to evaluate investment decisions. The proposal calls for a study of the potential future impact of changes in the electric utility industry arising from efforts to limit global warming to 2 degrees Celsius, as agreed in the Paris climate treaty in December 2015. AES says it already reviews the impacts of regulatory changes and provides suitable disclosure. The company has decreased its carbon-intensive generation in recent years, and its absolute emissions have dropped despite a slight rise in emissions intensity. Peer companies have made efforts to set emission reduction targets in line with a 2-degree scenario. Investors must decide if they need the additional information requested to properly evaluate the nature of the company's climate-related risks.

I. Challenges to Electric Utility Business Models

Electric utilities are facing unprecedented external and internal challenges to traditional business models. Technological change and associated new market entrants, climate change regulation and shifting consumer demands are putting pressure on traditional electrical generation, transmission and distribution. Fossil fuels—particularly coal—are becoming increasingly expensive to exploit. Energy efficiency and other demand-side resources are now cheaper than conventional generation in many cases. Renewables—particularly solar and wind—outcompete fossil fuels in many instances, and generally are approaching grid parity.¹ Many utilities—including AES—are also experimenting with electricity storage, thanks to very rapid advances in the technology. Electricity generation, transmission and delivery is growing increasingly decentralized, electricity is no longer necessarily consumed immediately and formerly high barriers to market entry are eroding.

Distributed generation² of electricity has proliferated in many states, and is one of the approaches the proponent recommends AES consider in the shareholder resolution at hand. Residential rooftop solar is expanding rapidly as costs for solar panels decrease and companies such as **Solar City** and **First Solar** expand. Many environmental activists and utility sector analysts see distributed generation as a critical element of the electric grid of the future. Key advantages they point to are *reduced emissions* from prevented generation, *cost advantages* to owners, *efficiency gains* in the form of decreased transmission loss, *resilience* that comes from independence from an interconnected grid that is otherwise subject to cascading outages and *modularity* that enables renewable energy source integration.

Others question the value of distributed generation proliferation in the current framework. Some scholars at the Massachusetts Institute of Technology (MIT) who have been skeptical about distributed solar assets' usefulness recently published a [report](#) suggesting large-scale, utility-controlled solar assets may make better long-term economic sense. MIT's report warns regulators that they must:

minimize distortions from charges that are designed to collect taxes, recover the costs of public policies [including subsidies for renewable energy [and] cross-subsidies between different categories of customers, etc.), and recover residual network costs (i.e., those network costs that are not recovered via cost-reflective charges).

This admonition is based on the difficulty utilities face under traditional regulatory structures, where their costs for grid maintenance are recovered from customers' charges, which are largely volumetric. In general, customers generating their own solar power, for instance, are entitled to electrical grid access to draw power during times of insufficient generation and to sell power back to the grid in times of excess, yet such customers will pay less for grid availability because of lower usage. On net, this can result in the utility receiving less in fees than it costs to keep that customer connected to the grid. In some cases, customer rates (i.e. cost per unit of electricity) would increase substantially if the same fixed costs for grid services were applied to lower volumes of usage. Importantly, these challenges are not necessarily an inherent problem with distributed generation, but rather largely with the cost recovery mechanisms that regulators have put in place for utilities. A number of experts, regulatory officials and utilities have described rate solutions to such problems. These rate structures could be changed.

¹ Grid parity occurs when new energy sources can generate power at a cost less than or equal to the price of purchasing power from the existing electricity grid.

² Distributed generation refers to power generation at the point of consumption. It usually involves renewable energy sources, particularly solar, and is thus intimately connected to the topic of renewable energy uptake.

According to PriceWaterhouseCooper’s [2015 Global Power & Utilities \(P&U\) Survey](#), 94 percent of electric power industry representatives predict that the power utility business model will be either completely transformed or significantly changed by 2030:

In defining future business models, utilities need to understand and challenge their company’s purpose and positioning in tomorrow’s markets. In the past, operating an integrated utility from generation through customer supply was well understood. Now, unbundling opportunities are extending deeper into the value chain and enabling greater participation by specialists. As a result, electric companies will need to rethink not just their roles and business models, but also their service and product offerings and approaches to customer engagement.

In May 2014, Barclays downgraded bonds for the entire U.S. electric utility sector due to risks posed by the rapidly declining costs of solar power and energy storage technologies. Deutsche Bank predicts total solar photovoltaic (PV) power costs would reach grid parity in 36 U.S. states as soon as this year, and Frost & Sullivan projects that both residential and utility-scale solar photovoltaic power will reach global grid parity by 2020. In many regions, wind and solar—especially at utility scale—are already reaching grid parity and often pricing out more traditional generation resources.

In 2016, Si2 published a report in collaboration with IRRIC Institute that examined in depth the climate orientation of the boards of the 25 largest investor-owned utilities, allowing investors to make informed judgements. [The Top 25 U.S. Electric Utilities: Climate Change, Corporate Governance and Politics](#) evaluated boards using a standardized set of metrics designed by Si2 with input from investors, governance experts and utility economists. The project provided data for use by investors concerned about climate and regulatory impacts on their portfolio companies. AES was among the companies evaluated in that study.

This Action Report addresses the 2-degree scenario and stranded asset risk, both of which are discussed in greater detail in [Si2’s 2017 Briefing Paper on Climate Change](#).

II. AES and Climate Change

AES operates as a diversified power generation and utility company. It owns and operates power plants that generate and sell power to customers, such as utilities, industrial users and other intermediaries. The company also owns and operates utilities that generate or purchase, distribute, transmit and sell electricity to end-user customers

| Financials | | | |
|----------------------|-----------|----------|----------|
| (\$ millions) | 2016 | 2015 | % Change |
| Total Revenue | \$13,586 | \$14,155 | (4.0%) |
| Net Income | (\$1,130) | \$306 | (469.3%) |

in the residential, commercial, industrial and governmental sectors, and generates and sells electricity on the wholesale market. It uses a range of fuels to generate electricity, including hydro, coal/petroleum coke, oil, gas/diesel, biomass, solar, wind, energy storage and landfill gas. The company owns and operates a generation portfolio of approximately 30,379 megawatts (MW). It has operations in the United States, Chile, Colombia, Argentina, Brazil, Mexico, Central America, the Caribbean, Europe and Asia. The company was formerly known as Applied Energy Services.

Generation Mix

AES derives 40 percent of its energy from coal, down considerably from 86 percent in 2013. The company has made a significant shift from coal to natural gas, which composes 33 percent of its current portfolio, up from just 7 percent in 2013. AES has also expanded its share of renewables from 7 percent in 2013 to 33 percent today. AES’s current fuel mix is shown in the pie chart on the next page.

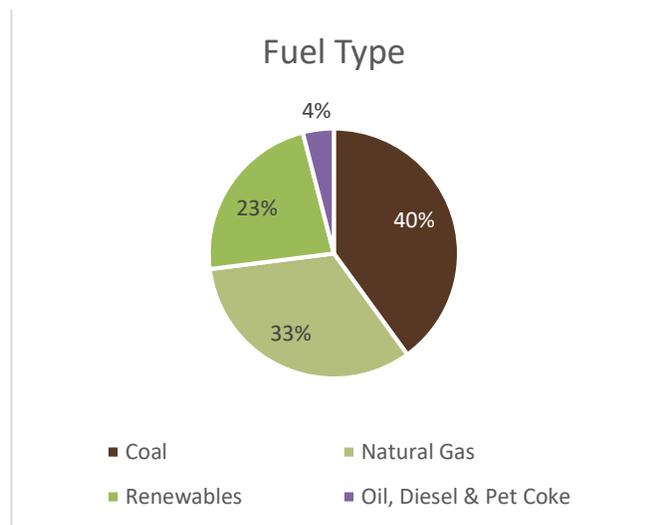
AES says in its 2016 Form 10-K:

Future growth across our company will be heavily weighted towards less carbon-intensive wind, solar and gas generation. Growth in renewables not only provides an opportunity for direct investments in wind and solar generation, but also presents significant potential for energy storage. We are a leader in lithium ion, battery-based energy storage, with more than 400 MW in operation, under construction or in advanced development across seven countries. We believe lithium ion-based energy storage will play a critical role in an increasingly renewables-based generation mix. With our technological experience, presence in key markets and channel sales partnerships, we are positioned to capitalize on this rapidly growing market.

Additionally, we have been expanding our LNG infrastructure in Central America, where we are helping to displace oil-fired generation in favor of a cheaper and cleaner alternative. In the United States, at IPL, we recently completed a multi-year rate-base investment in environmental upgrades to our coal plants and are in the process of re-powering several units from coal to gas.

Source: AES

AES' Energy Portfolio



AES does not provide a breakdown of its renewable generation capacity by source, but a closer examination of its portfolio discussions in its 2016 Form 10-K suggests that much of its renewable generation comes from hydropower, which presents climate change and reputational risks that make it less desirable than other renewable options. AES says in its 2015 sustainability report that it has more than 100 MW of distributed generation solar photovoltaic projects in operation—roughly 3.3 percent of its total portfolio—with another 11 MW in development.

In September 2016, AES' CEO Andrés Gluski [said](#) that his company had no plans to construct new coal-fired generation beyond two in-progress international projects, choosing instead to focus on battery storage, renewables and gas. He said the two projects already under way may “possibly” be the company's last coal projects. AES continues to make investments in existing, U.S.-based coal plants.

In February 2017, AES [announced](#) plans to purchase sPower, a utility-scale solar asset owner. The sPower portfolio includes 1,274 MW of solar and wind projects in operation or under construction and a development pipeline of more than 10,000 MW located in the United States.

AES provides the following discussion of the risk associated with its renewable energy projects in its 2016 Form 10-K:

Wind generation, our solar projects and our investments in projects such as energy storage are subject to substantial risks. Projects of this nature have been developed through advancement in technologies which may not be proven or whose commercial application is limited, and which are unrelated to our core business. Some of these business lines are dependent upon favorable regulatory incentives to support continued investment, and there is significant uncertainty about the extent to which such favorable regulatory incentives will be available in the future.

Furthermore, production levels for our wind and solar projects may be dependent upon adequate wind or sunlight resulting in volatility in production levels and profitability. For example, for our wind projects, wind resource estimates are based on historical experience when available and on wind resource studies

conducted by an independent engineer, and are not expected to reflect actual wind energy production in any given year.

As a result, these types of renewable energy projects face considerable risk relative to our core business, including the risk that favorable regulatory regimes expire or are adversely modified. In addition, because certain of these projects depend on technology outside of our expertise in generation and utility businesses, there are risks associated with our ability to develop and manage such projects profitably. Furthermore, at the development or acquisition stage, because of the nascent nature of these industries or the limited experience with the relevant technologies, our ability to predict actual performance results may be hindered and the projects may not perform as predicted. There are also risks associated with the fact that some of these projects exist in markets where long-term fixed price contracts for the major cost and revenue components may be unavailable, which in turn may result in these projects having relatively high levels of volatility. Even where available, many of our renewable projects sell power under a Feed-in-Tariff, which may be eliminated or reduced, which can impact the profitability of these projects, or make money through the sale of Emission Reductions products, such as Certified Emissions Reductions, Renewable Energy Certificates or Renewable Obligation Certificates, and the price of these products may be volatile. These projects can be capital-intensive and generally are designed with a view to obtaining third party financing, which may be difficult to obtain. As a result, these capital constraints may reduce our ability to develop these projects or obtain third party financing for these projects.

Climate Change Disclosure

The SEC has rejected AES' contention that its existing disclosures adequately address this shareholder proposal. In December 2016, AES filed a no-action letter with the SEC arguing that the company's existing disclosures represent "substantial implementation" of the proposal. The SEC rejected this argument, saying in its [ruling](#), "it does not appear that AES' public disclosures compare favorably with the guidelines of the proposal."

In its 2016 Form 10-K, AES goes further than many other electric utilities by acknowledging the physical risks associated with climate change, and the potential adverse effects these could have on electrical generation, transmission and distribution in general. However, AES does not continue on to describe how it might be addressing these risks.

In November 2016, AES published a presentation detailing its [strategy for environmental performance](#), which builds on a plan it first developed in 2012. In the presentation, AES said:

- The execution of AES' strategy resulted in a 17% decline in AES' global carbon emissions from 2012 to 2015
- In the United States, our construction projects and completed partnerships are expected to reduce AES' U.S. carbon emissions by 20% to 30% by 2018, compared to 2012 emissions
 - For example, we are investing \$1.4 billion at IPL in Indiana to transform the power generation fleet with significant environmental upgrades and conversions of coal and oil plants to natural gas
 - The \$2.1 billion Southland repowering project in California increases fuel efficiency by 100%
- Outside the United States, AES is introducing cheaper, cleaner natural gas to markets that currently rely on petroleum fuels for electricity generation, creating environmental and social benefits for all stakeholders
- Globally, AES is developing wind, solar and energy storage projects to add zero emissions-energy solutions to the grid
 - Energy storage helps integrate renewable energy into the grid to ensure stability and reliability
 - AES is the world leader in Energy Storage with 432 MW in operations, construction or late-stage development

The term "climate change" appears just twice in [AES' 2015 Sustainability Report](#), in each case referencing an external organization. This reflects that while AES discusses risk throughout the report, the company does not connect the dots from greenhouse gas emissions to climate change to the resulting physical risks to its operations and infrastructure, nor does the company disclose how it may be planning and

adjusting for such developments. Management describes climate change-induced threats to the electric utility industry as a whole in its 2016 Form 10-K, as noted earlier, but does not advance the analysis to provide specific risk-management strategies related to its own operations.

AES responds to CDP's climate change survey. In its [2016 response](#), it said:

The influence of climate change on AES's long-term business strategy (beyond five years) can be easily identified as AES is focused on building a sustainable energy company through a lower carbon model. The long-term principles of the strategy are (1) the use of cleaner fuels including natural gas, hydro, solar, wind and other renewables whenever they are economically feasible and sustainable; (2) the continued deployment of energy storage solutions; (3) development of desalination plans to reduce the impact on limited water resources; and (4) developing or expanding the availability of LNG in some of our markets.

AES has participated in the CDP survey for a number of years, and has consistently received a high score from CDP with respect to the substance of AES' disclosures. CDP provides each participant with a performance score that represent the steps towards environmental and climate change stewardship. The performance score ranges from D to A, with A being the highest possible score: Disclosure (D), Awareness (C), Management (B) and Leadership (A). AES received an A- in 2016.

Emissions

AES has shown a steady decline in its greenhouse gas emissions in recent years, from 82.33 million metric tons of carbon dioxide equivalent (CO₂e) in 2012 to 68.63 million in 2015, exceeding its target for that year of 80.85 million. However, AES' emissions intensity rose slightly over that same period, from 0.681 metric tons of CO₂e per megawatt hour (MWh) in 2012 to 0.694 in 2015. The International Energy Agency [estimates](#) that for the world to stay on track for a 2-degree warming scenario, the average carbon intensity in the power sector must fall to 0.04 tons of CO₂e/MWh by 2050. While AES sets absolute emissions targets, it does not appear to set intensity targets.

Climate Change Governance and Risk Management

AES board-level Nominating, Governance and Corporate Responsibility Committee reviews environmental compliance operations and the scope of internal environmental compliance audit programs. At present the company has no one on its board of directors with discernable, explicit environmental expertise. Ultimately, business unit leaders have direct responsibility for complying with environmental regulation and managing operations to mitigate the impacts of climate change on their businesses.

According to AES, its Risk Management Team assesses climate change risks and provides regular updates to senior management, executive leadership and the board of directors. The risk identification process is implemented at the business unit level and addresses risks driven by climate change and environmental regulations. The larger AES businesses conduct an annual strategy process to identify long term risks and opportunities. Each business develops its multiyear strategic plans based on the results of the annual strategy process.

Stranded Asset Risk

In a January 2016 report, "[Stranded Assets and Thermal Coal: An analysis of environment-related risk exposure](#)," the University of Oxford's Smith School of Enterprise and the Environment found that "the environment-related risks facing the thermal coal value chain are substantial and span physical environmental impacts, the transition risks of policy and technology responding to environmental pressures, and new legal liabilities that may arise from either of the former." The report specifically evaluated the top 100 global utilities by coal-fired generation capacity for their risks related to asset stranding. The

strongest takeaway from the researchers' exhaustive analysis was that current disclosure mechanisms are not sufficient for consistent evaluation of stranded carbon asset risk. It said:

[I]t is noteworthy that very little of our analysis has actually depended on existing corporate reporting or data disclosed through voluntary disclosure frameworks. This is both a cause for hope and concern. It demonstrates that significant strides can be made to understand company exposure to environment-related risks even in the absence of consistent, comprehensive, and timely corporate reporting on these issues. But it also highlights how existing frameworks on environment-related corporate disclosure might be asking the wrong questions – they generally attempt to support and enable top down analysis, but might not do enough to support a bottom up, asset-specific approach. Reporting needs to link back to a fundamental understanding of risk and opportunity and to specific assets within company portfolios, especially for companies with portfolios of large physical assets (e.g. power stations, mines, oil and gas fields, processing plants, and factories). In the absence of that, what is reported may not be actionable from an investor perspective.

The researchers also note that the cost of accessing and processing the data they used for their study is prohibitive for most investors. The report ranked utilities' risk along a variety of scenarios associated with asset stranding:

- **Carbon Dioxide Intensity:** The more carbon-intensive a coal-fired power station, the more likely it is to be negatively affected by climate policy, whether through carbon pricing, emissions performance standards or similar measures.
- **Plant Age:** Older power stations create risk for utilities in two ways: they are more vulnerable to regulations that might force their closure, and they increase the likely cost of site remediation requirements.
- **Local Air Pollution:** Coal-fired power stations in locations with high population density and serious local air pollution are more at risk from regulation and emission abatement technology requirements, or even operation cessation.
- **Water Stress:** Power stations located in areas with higher physical baseline water stress, or in areas characterized by water conflict or regulatory uncertainty, are at higher risk of forced operational reduction or cessation, or of profit impairment by water pricing.
- **Coal Quality:** Coal-fired power stations that use lignite—which emits the most carbon dioxide of any coal type—are more at risk than those that use other forms of coal.
- **CCS Retrofitability:** Coal-fired power stations that are not suitable for carbon capture and storage (CCS) technology retrofit might be at greater risk of premature closure.
- **Future Heat Stress:** Climate change will exacerbate heat stress on power stations, as higher ambient local temperatures decrease power station efficiency and exacerbate water stress.

The following table (*next page*) shows the 12 major U.S. investor-owned utilities covered in the Oxford study, along with their risk ranking from 1 to 100, where 1 constitutes the lowest risk.

| Stranded Carbon Asset Risk Ranking | | | | | | | | |
|------------------------------------|-------------------------------------|---------------------|-------------------------------|------------------------|------------------------|-------------------------------|------------------------------|-------------------|
| Company | CO ₂ Intensity Risk Rank | Plant Age Risk Rank | Local Air Pollution Risk Rank | Water Stress Risk Rank | Coal Quality Risk Rank | CCS Retrofitability Risk Rank | Future Heat Stress Risk Rank | Average Risk Rank |
| AEP | 65 | 87 | 20 | 1 | 62 | 100 | 83 | 59.7 |
| NRG Energy | 70 | 92 | 22 | 1 | 69 | 100 | 58 | 58.9 |
| Ameren | 74 | 96 | 26 | 1 | 1 | 100 | 100 | 56.9 |
| DTE Energy | 71 | 97 | 27 | 1 | 1 | 100 | 100 | 56.7 |
| AES | 64 | 71 | 31 | 62 | 1 | 100 | 32 | 51.6 |
| Entergy | 52 | 72 | 11 | 1 | 1 | 100 | 100 | 48.1 |
| Xcel Energy | 40 | 59 | 5 | 73 | 1 | 100 | 54 | 47.4 |
| Dominion Resources | 57 | 94 | 24 | 1 | 1 | 100 | 33 | 44.3 |
| Duke Energy | 49 | 83 | 29 | 1 | 59 | 33 | 50 | 43.4 |
| FirstEnergy | 66 | 86 | 19 | 1 | 1 | 32 | 80 | 40.7 |
| Southern | 51 | 79 | 13 | 1 | 60 | 31 | 47 | 40.3 |
| PPL | 32 | 56 | 4 | 1 | 1 | 20 | 65 | 25.6 |

II. Proponent Position

Mercy Investment Services believes shareholders will benefit from increased disclosure by AES and a more detailed analysis evaluating the impacts of achieving the 2-degree scenario put forth by the Paris agreement. Mercy believes that current disclosure is inadequate and that the requested analysis will help the company and its investors because it will help both assess financial risks. The proponent notes that the Moody's credit rating agency now analyzes carbon transition risk, and highlights the high carbon risk exposure of the power sector.

Implementation of this resolution would lead to a number of benefits for the company and shareholders, according to the proponent. For example, Mercy asserts that by providing the requested analysis, AES can identify and manage material risks and opportunities by assessing the resilience of its portfolio and capital planning strategies against the 2-degree target. This would help AES keep pace with its competitors, Mercy argues. In a [supporting memo](#), the proponent points to actions by peers; **NRG Energy**, **Xcel** and **Enel** (in Italy) have all set GHG emission targets in line with 2-degree scenario and when faced with a similar resolution, Australian utility **AGL** "embraced" the requested actions.

Mercy emphasizes AES's exposure to carbon asset risk. It says that as one of the more carbon-intensive utilities, the company's continued investments in coal and carbon-intensive projects put it at particular risk. The proponent acknowledges AES' recent reduction in coal generation development, but remains concerned about AES' sustained plans for investment in fossil fuel-based generation.

The proponent seeks a report from management on a 2-degree scenario risk analysis, and suggests that AES could include a description of how it might adjust its capital expenditure plans accordingly, and how it might integrate such innovations as "electric vehicle infrastructure, distributed energy sources (storage and generation), demand response, smart grid technologies, and customer energy efficiency as well as corresponding revenue models and rate designs."

III. Management Position

Management responds that the company reviews regulatory impacts and provides suitable disclosure. It contends the resolution is unnecessary because AES already continuously reviews the potential impacts of regulatory changes on its business. It points to the company's general commitment to environmental protection, though this is not specific to the resolution at hand. The board highlights AES' recent decline in absolute emissions, characterizing this as the result of corporate strategy. The board also notes its strategy of moving toward less carbon-intensive generation, as well as its leadership in battery-based energy storage.

The board also points to AES' newly published presentation on its strategy for environmental performance, its annual publication of a sustainability report and its annual participation in CDP's climate change survey, as discussed earlier in this report. Management notes that AES's extensive disclosures are favorably recognized by third parties such as Ceres, the Dow Jones Sustainability Index, CDP and Ethisphere.

Management believes that the 25-year time horizon embedded in 2-degree scenario analysis is too long to allow for reasonable prediction, and that such analysis would therefore be speculative and unhelpful. The board also notes that the analysis would command significant resources, and asserts that it is already providing stockholders with "meaningful insight" into the company's approach to emissions.

In sum, management opposes the resolution on the grounds that:

- It already substantially complies with the request
- The time horizon of the 2-degree scenario renders any analysis speculative
- The requested report would require significant resources in a short amount of time without providing any commensurate value to shareholders

IV. Analysis

Key Points at Issue

- Is the company at risk from changes in climate change regulations? Is it reasonable to expect a company to assess the impacts of a 2-degree scenario on the company's full portfolio of power generation assets and planned capital expenditures through 2040, including financial risks?
- Would investors be helped by more company analysis about different potential regulatory impacts on its operations?
- How do AES's disclosure and actions compare with its competitors?
- What would be the costs and benefits of implementing the proponents' suggestions?

For additional analysis, please refer to Si2's 2017 [Briefing Paper - Environment \(Climate Change\)](#) and [Environmental Management](#). The following analysis is specific to AES.

The proponent raises concerns about growing evidence that anthropogenic climate change is already having serious impacts on the environment and society, that these impacts are highly likely to increase in severity and that global regulatory bodies will take increasingly stringent steps to constrain the greenhouse gas emissions that are responsible for the majority of atmospheric warming. Mercy specifically raises the 2-degree scenario, which reflects what had been a general scientific consensus that average global temperatures must not increase more than 2 degrees Celsius in order for catastrophic impacts to be averted. Recent research, however, strongly suggests that even 2 degrees of warming would be devastating, and the most recent discourse is turning toward a 1.5-degree scenario. Within this context, the

proponent wants to know more about how AES is planning for a transition to this new, low-carbon future, even as the proponent recognizes the company's important steps in this regard.

The Paris climate treaty reached in December 2015 initially prompted optimism from many about new prospects for a real shift in global government action to address climate change. The outcome of the 2016 presidential election and the new Trump administration's stated intention to abandon many of the U.S. existing climate initiatives may delay some movement at the federal level. Nonetheless, many large institutional investors are convinced that companies and governments must take urgent action to address climate risks; they are paying ever closer attention to how their portfolio companies are strategically situated to handle climate-related risks and opportunities, despite the continuing U.S. political dysfunction that puts meaningful national energy legislation out of reach in the short term.

A 2015 analysis from GNV GL Energy, a utility analyst firm, found that AES was one of the companies most at risk in the utility sector, given its emissions profile and other factors. In addition, AES has one of the highest emissions intensities among its generating company peers, and is far away from the intensity the IEA estimates would comport with a 2-degree scenario. Unlike most of its peers, AES does not currently use an internal price of carbon—a measure that can inform capital planning—but it says it plans to do so in the next two years.

Despite a high CDP disclosure score and third party accolades, AES has provided limited information on the issues specifically raised by the proponent. In comparison, some utility peers and other energy companies are providing the type of information suggested by the proponent, or outlooks with the suggested timeframe; **NRG Energy**, **Xcel** and **Enel**, for instance, have set greenhouse gas emission targets aligned with achieving a 2-degree scenario, while **ConocoPhillips**, **Statoil** and **BHP Billiton** have conducted 2-degree scenario analyses through 2040.

While the requested report would incur costs for AES, it is unlikely that it would be materially significant to a company of this size. Given that the company has already acknowledged impacts from greenhouse gas emissions and climate change regulation, this report could help it prepare for future impacts globally.

Voting Considerations

Voting in favor: Investors who share the proponent's view that the company should provide more information on potential impacts driven by a 2-degree scenario will vote in favor of the resolution. They are likely to believe that this report would help investors better assess risks and potentially help the company prepare for likely climate-induced risks. These shareholders are also likely to believe that even though the United States has retreated from climate change initiatives under a new administration, the growing risk and impact of climate change renders eventual regulation inevitable, and companies would serve their shareholders' interests by preparing and adapting now.

Voting against: Shareholders who believe the company's current disclosure is adequate, and those who think that it would be difficult for the company to report in the timeframe requested will probably vote against the resolution. These investors may be persuaded that the United States' recent retreat from climate-related regulation decreases the likelihood of regulatory pressure on carbon-intensive companies.

Resources

- AES 2016 Form 10-K
<https://www.sec.gov/Archives/edgar/data/874761/000087476117000003/a2016form10-k.htm>
- AES 2017 Proxy Statement
<https://www.sec.gov/Archives/edgar/data/874761/000087476117000008/a2017proxystatement.htm>
- AES 2015 Sustainability Report
http://s2.q4cdn.com/825052743/files/doc_downloads/sustanaibility/2015/2015_AESSustainabilityReport.pdf
- AES November 2016 Strategy for Environmental Performance
http://s2.q4cdn.com/825052743/files/doc_downloads/sustanaibility/2016/11-21-16-Environmental-Disclosures.pdf
- AES 2016 CDP Response
<https://www.cdp.net/en/responses/304>