



# Decision on changes in companies excluded on the grounds of coal-based business operations

8 December 2015

## Introduction

In line with their guidelines on responsible investment, KLP and the KLP Funds have decided to follow the example of the Government Pension Fund Global (GPF) and lower the threshold for excluding coal companies to encompass those deriving 30 per cent of their income from coal-based operations. KLP's decision is based on the Norwegian parliament's new guidelines for the GPF. There are several aspects of the new GPF guidelines that KLP will continue working to operationalize during the course of 2016.

Based on this, KLP has decided that:

- *the following companies are to be excluded on the grounds that they derive more than 30 per cent of their income from coal-fired electricity generation or coal extraction:* Adani Power Ltd., AGL Energy Ltd., Alliant Energy, Korea Electric Power, Reliance Infrastructure, Glow Energy Public Co., Duke Energy, NRG Energy, Inc., OGE Energy Corp., Pinnacle West Capital, Shikoku Electric Power, The Southern Company, WEC Energy Group.
- *the following companies are to be re-included after changes in their exposure to coal:* Power Asset Holdings Ltd. and Turquoise Hill Resources Ltd.

## Newly excluded companies

**Adani Power Ltd, 100 per cent of income from coal-fired electricity generation.**<sup>1</sup> KLP has become invested in this company as a result of its spin-off of from Adani Enterprises. Adani Enterprises has spun off its coal business into a separate company.

**AGL Energy Ltd, 33 per cent of income from coal-fired electricity generation.**<sup>2</sup> AGL Energy Ltd. is an integrated Australian energy company.<sup>3</sup> In addition to coal-fired electricity generation, the company is a major producer of natural gas and is the country's largest producer of renewable energy.<sup>4</sup>

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<sup>1</sup> URL: [http://www.adanipower.com/Common/Uploads/FinanceTemplate/1\\_FFReport\\_Annual%20Report.pdf](http://www.adanipower.com/Common/Uploads/FinanceTemplate/1_FFReport_Annual%20Report.pdf), <http://www.adanipower.com/power-thermal> and [http://www.adanipower.com/Common/Uploads/FinanceTemplate/8\\_FFReport\\_Analyst%20Presentation%20-%20APL%204QFY14.pdf](http://www.adanipower.com/Common/Uploads/FinanceTemplate/8_FFReport_Analyst%20Presentation%20-%20APL%204QFY14.pdf) (p. 5).

<sup>2</sup> URL: [http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/ASX%20and%20Media%20Releases/2014/140917\\_annualReport1364569.pdf](http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/ASX%20and%20Media%20Releases/2014/140917_annualReport1364569.pdf) (p. 82) and [http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/Investor%20Center/2014/2014Results\\_Pres\\_release.pdf](http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/Investor%20Center/2014/2014Results_Pres_release.pdf) (p. 48).

<sup>3</sup> <http://www.agl.com.au/about-agl/how-we-source-energy/renewable-energy>

<sup>4</sup> Ibid.



Nevertheless, the production of energy from renewable sources accounts for just 9 per cent of the company's income.<sup>5</sup>

**Alliant Energy, 37 per cent of income from coal-fired electricity generation.**<sup>6</sup> The company produces electricity and distributes power and natural gas in three US states. Although the company plans to keep coal as a significant energy source, it will make use of new, modern technology and the phasing out of older power plants to reduce its overall carbon footprint.<sup>7</sup>

**Duke Energy, 32 per cent of income from coal-fired electricity generation.**<sup>8</sup> The company produces and distributes electricity in both the USA and Latin America. The enterprise is a holding company. Duke Energy makes use of coal, gas, oil, nuclear and renewable energy in its operations. The relative proportions are still unclear, but around 3-4 per cent of its power production stems from renewable energy sources. The company describes itself as one of the United States' largest producers of renewables. So far, it has invested approx. USD 4 billion in renewables, and envisages further investments of USD 2-3 billion over the next five years. According to the company, renewable energy has become a key part of its growth strategy.<sup>9</sup> Duke Energy has been guilty of several major violations of US environment legislation, and was given a substantial fine for polluting a local river in the spring of 2015. The company was excluded from KLP and the KLP funds' investments from December 2006 to June 2012 on the grounds of a previous violation of US environmental legislation. Despite the company's stated ambitions, its investment in renewable energy is not sufficient to avoid exclusion, given the size of its coal-based revenues. Nor do its repeated violations of US environment regulations incline towards exemption.

**Glow Energy Public Co, 37 per cent of income from coal-fired electricity generation.**<sup>10</sup> Part of Glow Group, this company produces electricity and supplies steam and water to industrial customers.<sup>11</sup> The company's electricity production is fuelled by gas and coal. There are no indications in its annual report of any transition away from coal. In fact, a new coal-fired power plant went into operation as recently as 2012. A focus on renewable energy is part of its strategy, according to the company,<sup>12</sup> but this focus is not spelled out or specified. So far, the company has established only one solar energy park.

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<sup>5</sup> URL:

[http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/ASX%20and%20Media%20Releases/2014/140917\\_annualReport1364569.pdf](http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/ASX%20and%20Media%20Releases/2014/140917_annualReport1364569.pdf) (p. 82) and

[http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/Investor%20Center/2014/2014Results\\_Pres\\_release.pdf](http://www.agl.com.au/~media/AGL/About%20AGL/Documents/Media%20Center/Investor%20Center/2014/2014Results_Pres_release.pdf) (p. 48).

<sup>6</sup> URL: <http://phx.corporate-ir.net/phoenix.zhtml?c=71431&p=irol-sec> (p. 22 and 93).

<sup>7</sup> Strategic Overview. Annual Report 2014.

URL:

[http://www.alliantenergy.com/wcm/groups/wcm\\_internet/@int/@tariff/documents/document/mdaw/mtu4/~edisp/158806.pdf](http://www.alliantenergy.com/wcm/groups/wcm_internet/@int/@tariff/documents/document/mdaw/mtu4/~edisp/158806.pdf).

<sup>8</sup> URL: <https://www.duke-energy.com/pdfs/Annual-Report-2014.pdf> (p. 53-56).

<sup>9</sup> See annual report, p. 8. URL: <http://www.duke-energy.com/pdfs/Annual-Report-2014.pdf>.

<sup>10</sup> URL: <http://glow.listedcompany.com/misc/ar/20150408-glow-ar2014-en.pdf> (p. 58) and

[http://www.glow.co.th/index.php?op=product\\_business\\_line\\_plants-detail&cid=2&id=3](http://www.glow.co.th/index.php?op=product_business_line_plants-detail&cid=2&id=3)

<sup>11</sup> URL: <http://glow.listedcompany.com/factsheet.html>.

<sup>12</sup> Eg in Business Strategy, Annual Report 2014. URL: <http://glow.listedcompany.com/misc/ar/20150408-glow-ar2014-en.pdf>.



**Korea Electric Power, 46 per cent of income from coal-fired electricity generation.**<sup>13</sup> Partly state-owned (21.7 per cent) Korea Electric Power has operations both nationally and internationally. Although the company makes use of a number of different energy sources, including renewables, coal is the dominant source – accounting for 40 per cent of the electricity that it produces in Korea.<sup>14</sup> In addition, the company operates its own coalmine to secure access to raw materials, and plans to expand this business area to include coal-shipping terminals.

**NRG Energy, 43 per cent of income from coal-fired electricity generation.**<sup>15</sup> The company is a US power utility, whose portfolio includes power plants fuelled by coal, oil and natural gas.<sup>16</sup> Nevertheless, NRG Energy promotes itself as a power generator that actively contributes to the transition to a low-carbon society.<sup>17</sup> The company has set ambitious goals for reducing its carbon emissions and is the largest developer of solar energy in the United States. In its communications, the company seems to be focusing strongly on renewable energy, but the proportion of overall electricity output actually deriving from renewables remains small.

**OGE Energy Corp, 44 per cent of income from coal-fired electricity generation.**<sup>18</sup> OGE Energy Corp is a US power utility, with operations in and around the state of Oklahoma.<sup>19</sup> The company produces, distributes and sells electricity to end-users in Oklahoma and parts of Arkansas.<sup>20</sup> OGE Energy Corp generates power from coal, natural gas and wind. According to the company, wind power accounts for just eight per cent of the energy it uses to generate electricity.<sup>21</sup>

**Pinnacle West Capital Corp, 34 per cent of income from coal-fired electricity generation.**<sup>22</sup> The enterprise is a holding company with investments in three energy-related subsidiaries in Arizona, USA. By far the largest of these is the power utility Arizona Public Service (APS). The company operates both gas-fired and coal-fired power plants, along with some renewable energy. It refers to the so-called Renewable Energy Standard, which applies in Arizona and requires all power companies to supply a growing percentage of electricity based on renewable energy sources. This percentage is set at 5 per cent for 2015, rising to 15 per cent in 2025. At the close of 2015, APS expects 12 per cent of the electricity it sells to come from renewables.<sup>23</sup>

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<sup>13</sup> URL: [home.kepco.co.kr/kepco/cmnn/fms/FileDown.do?atchFileId=FILE\\_000000021087283&fileSn=0](http://home.kepco.co.kr/kepco/cmnn/fms/FileDown.do?atchFileId=FILE_000000021087283&fileSn=0) (p. 10 and 37).

<sup>14</sup> URL: <http://home.kepco.co.kr/kepco/EN/B/htmlView/ENBBHP00201.do?menuCd=EN02020201>.

<sup>15</sup> NRG Energy 10-K (p. 19 of 184).

<sup>16</sup> URL: <http://www.nrg.com/about/who-we-are/our-assets/>.

<sup>17</sup> URL: <http://www.nrg.com/sustainability/vision/our-future/goals/>.

<sup>18</sup> URL: <http://services.corporate-ir.net/SEC/Document.Service?id=P3VyBD1hSFIwY0RvdkwyRndhUzUwWlc1cmQybDZZWEprTG1OdmJTO WtiM2R1Ykc5aFpDNXdhSEEvWVdOMGFQOXVQVkJFUmlacGNHRm5aVDB4TURFd01qazJPO1p6ZFdKemFXUTIOVGM9JnR> (p. 7, 49 and 56).

<sup>19</sup> URL: <http://phx.corporate-ir.net/phoenix.zhtml?c=106374&p=iro-l-irhome>.

<sup>20</sup> Ibid.

<sup>21</sup> OGE Energy Corp. Investor Fact Sheet (August 2015). URL: <http://phx.corporate-ir.net/phoenix.zhtml?c=106374&p=iro-l-irhome> (p. 1).

<sup>22</sup> URL: <http://www.pinnaclewest.com/investors/reports/annual-statistical-report/default.aspx> (p. 24).

<sup>23</sup> See p. 13 in the annual report for 2014.

URL: [http://www.pinnaclewest.com/files/doc\\_financials/annual/2014/2014AnnualReport\\_PinnacleWest.pdf](http://www.pinnaclewest.com/files/doc_financials/annual/2014/2014AnnualReport_PinnacleWest.pdf).



**Shikoku Electric Power, 32 per cent of income from coal-fired electricity generation.**<sup>24</sup> The company is one of 10 power utilities in Japan engaged in the production, transmission, distribution and sale of electricity in a specifically allocated geographic area. Coal and nuclear power are significant energy sources, while hydropower accounts for as much as 17 per cent of its energy output.<sup>25</sup> Like APS, Shikoku also buys electricity from renewable energy suppliers, thus supporting increased production of renewable energy.

**The Southern Company, 39 per cent of income from coal-fired electricity generation.**<sup>26</sup> The company is a US regional energy company, which generates electricity using a whole range of energy sources, though renewables account for only a small proportion. However, The Southern Company has several renewable energy projects in the planning stage, and expects to increase capacity from 7 per cent in 2014 to 10 per cent in 2020. There will be a corresponding decrease in coal-fired production, from 40 per cent of capacity in 2014 to 29 per cent in 2020.<sup>27</sup> These estimates are, however, dependent on developments in the price of the various energy sources over the next five years. The Southern Company has closed approx. 3,300 MW of coal-fired energy production in recent years, but is building a new facility for the conversion of thermal coal to gas for use in its gas-fired power plants.<sup>28</sup>

**Wisconsin Energy Corporation, 40 per cent of income from coal-fired electricity generation.**<sup>29</sup> This is a US company that produces and distributes electricity, and distributes natural gas. Following completion of its acquisition of Integrys Energy in June 2015, the renamed **WEC Energy Group** will supply electricity and natural gas to customers in four states. The new company is the USA's eighth largest distributor of natural gas.<sup>30</sup> The company does not seem to be planning any major changes in strategy with respect to coal, but is conscious of its impact on the climate and emphasizes measures such as the phasing out of older coal-fired power plants, the conversion of some coal-fired plants to natural gas, etc.<sup>31</sup>

## Companies recommended for re-inclusion

The purpose of KLP's strategy with respect to coal companies is to help realize the 2-degree global warming target. The withdrawal of investment from coal companies is an important tool that KLP uses to influence the market, investors and society to undertake the changes necessary to accomplish the so-called "green shift". It is therefore promising to see companies amending their strategies and reducing their exposure to coal. The following two companies have significantly reduced or completely sold

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<sup>24</sup> URL: [http://www.yonden.co.jp/english/ir/financial\\_info/ann\\_r/pdf/annual\\_e\\_2014.pdf](http://www.yonden.co.jp/english/ir/financial_info/ann_r/pdf/annual_e_2014.pdf) (p. 24, 34, 53, 60 and 83).

<sup>25</sup> URL: [http://www.yonden.co.jp/english/ir/financial\\_info/ann\\_r/pdf/annual\\_e\\_2014.pdf](http://www.yonden.co.jp/english/ir/financial_info/ann_r/pdf/annual_e_2014.pdf).

<sup>26</sup> URL: <http://d1lge852tjqow.cloudfront.net/CIK-0000092122/3650e044-b8f2-45b9-b7ab-b73a5fbeb11a.pdf> (p. 77 and 181).

<sup>27</sup> Investor presentation from The Southern Company (2015), archived at KLP.

<sup>28</sup> Dialogue between Trucost and The Southern Company (2015), archived at KLP.

<sup>29</sup> URL: <http://phx.corporate-ir.net/phoenix.zhtml?c=114170&p=irol-sec> (p. 11-13, 22, and 103).

<sup>30</sup> URL: <http://phx.corporate-ir.net/phoenix.zhtml?c=114170&p=irol-newsArticle&ID=2063295>.

<sup>31</sup> The company's 2014 annual report.

URL: [http://www.wecenergygroup.com/invest/annualreports/wec2014\\_annualreport.pdf](http://www.wecenergygroup.com/invest/annualreports/wec2014_annualreport.pdf).



their coal businesses. On this basis, Power Asset Holdings Ltd and Turquoise Hill Resources Ltd are to be re-included in KLP's investment portfolios.

**Turquoise Hill Resources Ltd, no income from coal or power generated from coal.**<sup>32</sup> Turquoise Hill is a mining company whose main operations are located in Mongolia, where it extracts copper, gold and silver.<sup>33</sup> The company was previously exposed to coal through a 23.3 per cent shareholding in the Mongolian coal company South Gobi Resources.<sup>34</sup> In its 2014 annual report, Turquoise Hill announced that the company had sold its stake in South Gobi. As a result, it is no longer involved in coal production.<sup>35</sup> The exclusion of Turquoise Hill Resources is therefore rescinded.

**Power Asset Holdings Ltd, 14 per cent of income from coal-fired electricity generation.**<sup>36</sup> Power Asset Holdings is a Hong Kong-based power utility, with operations in Hong Kong, China, the UK and Australia, among others.<sup>37</sup> In 2014, Power Asset Holdings sold off a proportion of its holdings in its Hong Kong electricity generator.<sup>38</sup> Power production in Hong Kong has traditionally been dominated by coal, and it is therefore likely that Power Asset Holdings' sell-off led to a substantial reduction in the proportion of its income deriving from coal in 2014.<sup>39</sup>

## Decision

The following companies are excluded from investment by KLP and the KLP Funds at the latest on 8 December 2015:

- Adani Power Ltd., AGL Energy Ltd., Alliant Energy, Korea Electric Power, Glow Energy Public Co., Duke Energy, NRG Energy, Inc., OGE Energy Corp., Pinnacle West Capital, Shikoku Electric Power, The Southern Company, WEC Energy Group.

The exclusion of the following companies from investment by KLP and the KLP Funds is rescinded with effect from 8 December 2015:

- Power Asset Holdings Ltd. and Turquoise Hill Resources Ltd.

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<sup>32</sup> URL: <http://www.turquoisehill.com/i/pdf/TH-AR-2014-Editorial.pdf> (p. 39).

<sup>33</sup> URL: [http://www.turquoisehill.com/s/trq\\_at\\_a\\_glance.asp](http://www.turquoisehill.com/s/trq_at_a_glance.asp).

<sup>34</sup> Ibid.

<sup>35</sup> URL: <http://www.turquoisehill.com/i/pdf/TH-AR-2014-Editorial.pdf> (p. 2 and 39).

<sup>36</sup> URL: <https://www.powerassets.com/en/investor-relations/financial-reports/annual-report-2014> (p. 116).

<sup>37</sup> URL: [https://www.powerassets.com/en/InvestorRelations/Documents/AnnualReport2014\\_4.pdf](https://www.powerassets.com/en/InvestorRelations/Documents/AnnualReport2014_4.pdf).

<sup>38</sup> URL: [https://www.powerassets.com/en/InvestorRelations/Documents/AnnualReport2014\\_7.pdf](https://www.powerassets.com/en/InvestorRelations/Documents/AnnualReport2014_7.pdf).

<sup>39</sup> Zhu, Charlie, "CLP tells Hong Kong to boost gas-fired power, instead of China imports," *Reuters* (5 June 2014). URL: <http://www.reuters.com/article/2014/06/05/hongkong-clp-holdings-power-idUSL3N0OM29T20140605>.



The table below gives an overview of the companies that have been excluded at this time:

<b>Company</b>	<b>Invested in shares NOK</b>	<b>Invested in bonds NOK</b>	<b>Weight KLP World</b>	<b>Weight KLP EM</b>	<b>Year data applicable</b>	<b>Share of income from coal</b>
Adani						
Power Ltd.	318 535	0	0.00 %	0.00 %	2014	99.57 %
Korea Electric						
Power Corp.	20 548 069	0	0.00 %	0.32 %	2014	46.39 %
OGE Energy Corp.	8 786 668	0	0.02 %	0.00 %	2014	44.01 %
NRG						
Energy, Inc.	10 194 255	0	0.02 %	0.00 %	2014	42.90 %
WEC Energy						
Group, Inc.	24 975 694	10 269 930	0.05 %	0.00 %	2014	40.24 %
The Southern Co.	145 838 991	199 904 207	0.13 %	0.00 %	2014	39.18 %
Alliant Energy						
Corp.	9 974 827	0	0.02 %	0.00 %	2014	36.99 %
Pinnacle West						
Capital Corp.	10 547 969	0	0.02 %	0.00 %	2014	33.53 %
AGL Energy Ltd.	90 359 973	0	0.03 %	0.00 %	2014	32.59 %
Shikoku Electric						
Power Co.	5 133 323	0	0.01 %	0.00 %	2014	32.06 %
Duke Energy Corp.	266 652 030	219 065 511	0.15 %	0.00 %	2014	31.50 %
<b>TOTAL</b>	<b>593 330 334</b>	<b>429 239 648</b>	<b>0.45 %</b>	<b>0.32 %</b>		