

Support Memo for Dominion Shareholder Proposal on MTR

Dominion Resources, Inc

Symbol: D

Dominion Resources, Inc. is placing an unnecessary risk to its reputation and long-term financial health by purchasing coal from the highly controversial practice of mountaintop removal mining when other alternatives are readily available.

Vote “FOR”

Shareholder proposal that requests Dominion Resources to:

Publish a report, prepared at reasonable cost within six months after the 2013 annual meeting, omitting confidential information, to define the impact and optimum timing of a future policy ending the company’s use of MTR coal, and (ii) request to add this policy as one of the measurable goals in its Sustainability Model and Scorecard.

Rationale behind a “FOR” vote on the Shareholder Proposal:

1. MTR poses a huge risk to Dominion’s reputation.

Mountaintop removal coal mining (MTR) has become one of the most iconic symbols in the national movement away from coal because it is arguably the biggest environmental threat to ever face Appalachia — the heart of coal country. Since 2001, this practice has permanently destroyed more than 500 mountains from the Appalachian skyline, buried or polluted more than 1,200 miles of pristine headwater streams, and swept away more than 800 square miles of one of America's most diverse and valuable ecosystems¹. Numerous studies have linked MTR to a host of medical conditions including increased rates of birth defects, cancer and cardiovascular disease in nearby communities, resulting in life expectancies comparable to those in developing countries like Syria, Iran and Vietnam².

The visceral reaction caused by the imagery of exploding mountaintops has led to increased awareness of this destructive practice through regular coverage in major news outlets such as CNN’s series on the “Battle for Blair Mountain”, feature-length films like “The Last Mountain” and the “Global Awareness Layers” feature in Google Earth.

¹ <http://www.epa.gov/region3/mtntop/index.htm>

² <http://ilovemountains.org/the-human-cost/study-summaries>

These facts and growing awareness have led to significant actions, such as:

- Legislators in six states introducing legislation to ban the purchase of mountaintop removal coal.
- Duke Energy requesting that its coal suppliers submit information and price estimates for providing coal that is not obtained through mountaintop removal coal mining.
- Several major U.S. and European banks deciding to limit or cease financing for MTR such as Credit Suisse's new policy to "not finance or provide advice on operations to extract coal or other resources where MTR is used³," and Wells Fargo stating "our involvement with the practice of MTR is limited and declining⁴."
- Most recently, Patriot Coal became the first major coal mining company to commit to ceasing its practice of MTR mining by declaring "that the continuation or expansion of surface mining, particularly large scale surface mining of the type common in central Appalachia, is not in its long term interests."

2. The volatility of the MTR coal market is only going to increase.

President Obama strongly declared in his State of the Union speech that, "if Congress won't take action on climate change, I will." Over the past four years, the President has exercised his administrative authority over the Environmental Protection Agency (EPA) to pass historic protections targeted at climate change, including: the first ever proposed carbon pollution standards for new power plants; the first carbon limits for vehicles; as well as lifesaving updates of standards that limit deadly soot, mercury and other toxic pollution. These actions have escalated advocacy group efforts in pushing the EPA to close the loopholes that let MTR mining continue by allow mining companies to pollute waterways. Some of the most recent examples include:

- A coalition of community groups formally warning the EPA that they may take legal action against the Agency for its failure to ensure that West Virginia streams and waterways polluted by coal mining are properly assessed.
- The aforementioned announcement of Patriot Coal Corporation to immediately begin phasing out all large scale surface mining in Appalachia as a direct result of an historic agreement with the Sierra Club, Ohio Valley Environmental Coalition, and the West Virginia Highlands Conservancy – represented by attorneys from Appalachian Mountain Advocates – that came about because the

³ Credit Suisse: Summary of Credit Suisse's Sector Policies and Guidelines, Summary of Mining Policy, p.3, available at https://www.credit--suisse.com/responsibility/doc/policy_summaries_en.pdf

⁴ Wells Fargo, 2010 Environmentally Responsible Lending, p.2, available at https://www.wellsfargo.com/downloads/pdf/about/csr/reports/environmental_lending_practices.pdf

groups had successfully sued the company and imposed hundreds of millions of dollars in water pollution abatement costs.

As indicated by the Patriot Coal example, citizen groups are not waiting for EPA or the states to act, but instead are holding MTR mining companies responsible for their pollution by bringing suit under the citizen enforcement provisions of the Clean Water Act. Because MTR mines across Appalachia regularly discharge pollutants like selenium at levels that exceed their permit limits, these companies have significant liabilities. The mining companies will pass along their water pollution treatment costs to coal purchasers like Dominion. In some cases, mining companies may be forced into bankruptcy, as Patriot Coal was, and seek to exit or amend coal supply agreements – to the detriment of coal purchasers.

To make matters worse, evidence continues to mount on the true costs that the coal industry imposes on the surrounding communities. A series of new studies that quantify coal-related revenues and expenditures to state treasuries have shown that the coal industries in West Virginia, Kentucky and Tennessee operate at a net loss to taxpayers, even accounting for the indirect impacts of coal mine employment while ignoring the "externalized costs" of the industry on the health and environment of communities where coal is mined. According to the West Virginia study:

"While every job and every dollar of revenue generated by the coal industry provides an economic benefit for the state of West Virginia and the counties where the coal is produced, the net impact of the West Virginia coal industry, when taking all revenues and expenditures into account, amounted to a net cost to the state of \$97.5 million in Fiscal Year 2009.⁵"

The uncertainty and volatility of the MTR market will only worsen as scrutiny from the EPA and resources from advocacy groups increases.

3. Dominion is not being transparent to its shareholders.

While Dominion is not in the coal mining business, it does hold long and short-term contracts with companies that are. What should be important to shareholders, and what is not being clearly communicated by Dominion is not only the nature of these contracts, but the reasons for obtaining coal from such a volatile industry in the first place.

An analysis of the 2010 purchases of Virginia Electric & Power Company, a major Dominion subsidiary, show that the Central Appalachian coal purchases from surface mines (i.e. MTR) were far more expensive than the coal purchases from underground mines. On average surface mined coal from Central Appalachia cost Dominion 329.52 cents per million BTUs whereas underground coal from Central Appalachia cost a mere

⁵ http://www.downstreamstrategies.com/Documents/reports_publication/DownstreamStrategies-coalWV.pdf

288 cents per million BTU. By another metric, surface mined Central Appalachian coal costs 13% more than underground mined coal⁶.

Dominion in its rebuttal statement to this resolution touts its, “plans to remove from service, shut down or convert nine coal-fired power stations,” and claims, “the amount of coal supply needed for our operations will be reduced.” However, it makes no statement on the opportunity for using this reduced demand to wean itself from MTR coal and minimize the risks to shareholders.

Conclusion

Dominion chooses to perpetuate the biggest environmental threat to ever face Appalachia through its continued purchase of MTR coal. The economic, health and environmental destruction caused by MTR have made it the most iconic symbol in the national movement away from coal resulting in increased government scrutiny and pressure from advocacy groups.

Dominion has failed to provide a legitimate reason for continuing to engage in such a volatile market when other options are available, and continues to withhold from its shareholders the risks associated with this continued practice. This resolution does not ask for Dominion to cease its use of MTR coal now, but merely to provide this critical information to its shareholders.

⁶ As reported in the Energy Information Administration Form EIA-923 for year 2010 -http://www.eia.gov/cneaf/electricity/page/eia906_920.html. Analysis by Appalachian Voices