Shareholders Go In Swinging

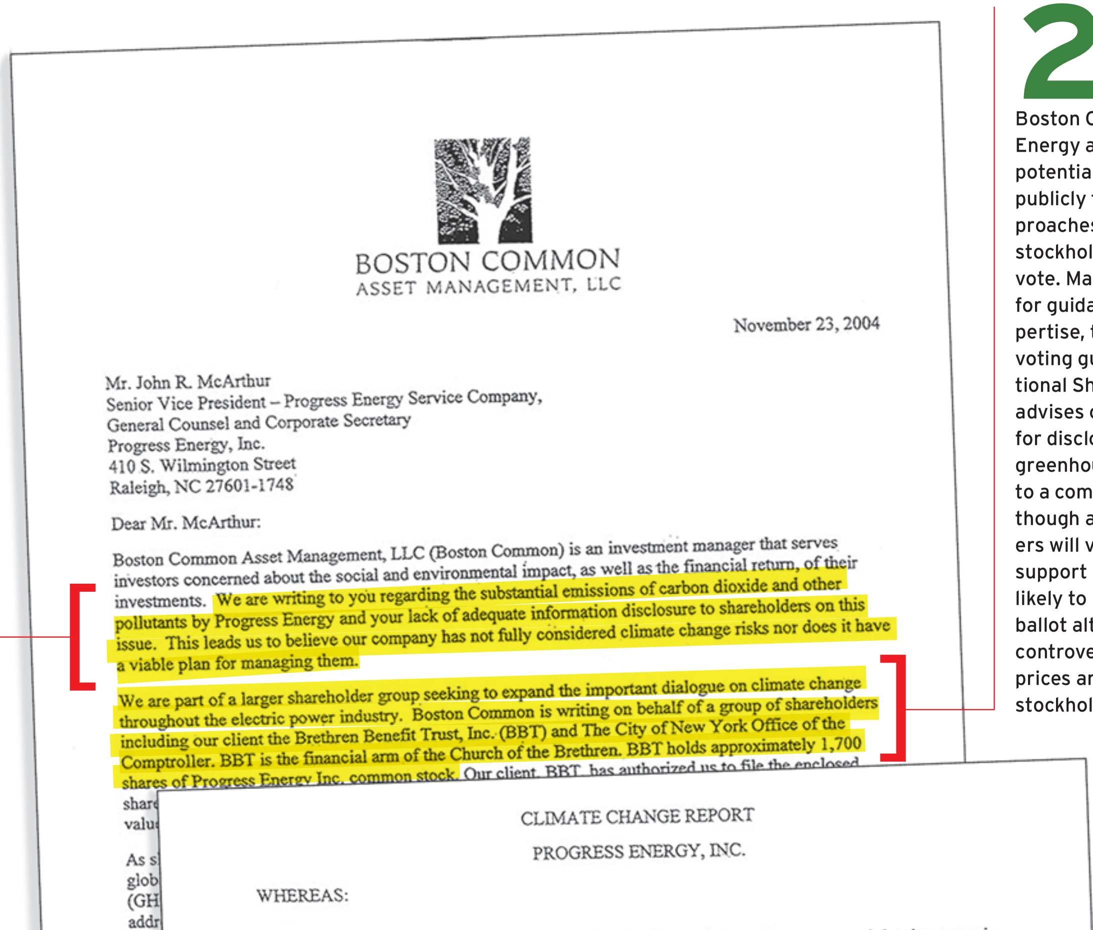
INVESTORS CHALLENGE ENERGY COMPANIES TO GET REAL ABOUT GLOBAL WARMING

BY LAURA WRIGHT

SINCE THE 1980s, SHAREHOLDER ACTIVISM HAS PROVED TO BE A powerful driver of social change. Major institutional investors, including many state retirement funds and university endowments, successfully pressured multinational corporations such as General Motors and IBM to pull out of South Africa, eventually helping to dismantle apartheid. Today's shareholder activists look to exert influence on a new range of issues, including global warming. Over the past several years, they have begun to challenge big power companies—the largest source of global warming pollution in the United States—to voluntarily report their greenhouse gas emissions and to start to address the financial risks that climate change presents to the electric power industry, especially as governments look to regulate greenhouse gases.

In the documents below, a group of institutional stockholders—Boston Common Asset Management, acting on behalf of the Church of the Brethren, and the New York City Employees' Retirement System—filed a resolution with Progress Energy, the ninth-largest generator of electricity in the country and, correspondingly, the power industry's ninth-largest emitter of greenhouse gases.

1 For activist investors, the goal is one of two things: to persuade management to meet their demands or to get their issue on the ballot for the annual stockholder meeting. In its letter to Progress Energy, Boston Common asks the company to create a plan to reduce global warming emissions, to begin public reporting of those emissions, and to establish an official position on federal greenhouse gas regulations. Management's response is usually determined by several considerations. The first is how much stock the investors own. The Securities and Exchange Commission has a minimum requirement for the amount of stock an investor must own to file a resolution, but the bar is low: $2,000 worth of shares, held for at least one year. In this case, the filers are established players in the world of shareholder activism and the sort of long-term institutional investors companies like to keep, even though the number of shares they own is relatively small.



BOSTON COMMON
ASSET MANAGEMENT, LLC

November 23, 2004

Mr. John R. McArthur
Senior Vice President – Progress Energy Service Company,
General Counsel and Corporate Secretary
Progress Energy, Inc.
410 S. Wilmington Street
Raleigh, NC 27601-1748

Dear Mr. McArthur:

Boston Common Asset Management, LLC (Boston Common) is an investment manager that serves investors concerned about the social and environmental impact, as well as the financial return, of their investments. We are writing to you regarding the substantial emissions of carbon dioxide and other pollutants by Progress Energy and your lack of adequate information disclosure to shareholders on this issue. This leads us to believe our company has not fully considered climate change risks nor does it have a viable plan for managing them.

We are part of a larger shareholder group seeking to expand the important dialogue on climate change throughout the electric power industry. Boston Common is writing on behalf of a group of shareholders including our client the Brethren Benefit Trust, Inc. (BBT) and The City of New York Office of the Comptroller. BBT is the financial arm of the Church of the Brethren. BBT holds approximately 1,700 shares of Progress Energy Inc. common stock. Our client, BBT, has authorized us to file the enclosed

CLIMATE CHANGE REPORT

PROGRESS ENERGY, INC.

WHEREAS:

2 Management also wants to know whether a resolution could prove popular enough to garner support among other company investors. Boston Common's cover letter to Progress Energy asserts that its request has the potential to gain widespread support. As a publicly traded company's annual meeting approaches, management compiles a report to stockholders in which it lists the issues up for vote. Many large institutional investors look for guidance on matters outside of their expertise, turning to research firms that publish voting guidelines. One of the biggest is Institutional Shareholder Services (ISS), which now advises clients to vote in favor of requests for disclosure of climate change risk when greenhouse gas emissions are directly related to a company's primary business. If it looks as though at least 20 percent of the stockholders will vote with the activist group—and ISS support is a good barometer—executives are likely to resolve the matter, keeping it off the ballot altogether. Most companies like to avoid controversies in their annual meetings: Stock prices are known to fluctuate in response to stockholder discontent.

3 Progress Energy provides power to approximately three million customers in North Carolina, South Carolina, and Florida, and as its customer base expands—rapidly—Progress has to keep the juice coming. State utility regulations require that energy companies provide power that is affordable and reliable. To do that, utilities may draw from a variety of energy sources at once. Some plants operate only during times of peak demand, while others provide the steady, round-the-clock power known as baseload. Although wind power is increasingly becoming a part of the mix, its intermittent nature prevents it from contributing substantially to baseload generation. Instead, companies like Progress rely on three primary power sources to meet their reliability requirements: coal, nuclear, and natural gas. Nearly half of the power Progress produces now comes from coal, a major source of greenhouse gases.

A 2004 report by the Bush Administration's Climate Change Science Program stated that increases in human-derived greenhouse gas emissions are the only likely explanation for global warming over the past three decades.

A 2004 Conference Board report declared that, "scientific consensus that the climate is changing is growing steadily stronger over time; Corporate boards will be increasingly expected to evaluate potential risks associated with climate change; and, the global economy will become less carbon-intensive over time… The real questions are what the pace of the transition will be and who will be the winners and losers."

U.S. power plants are responsible for nearly 40 percent of the country's carbon dioxide emissions, and 10 percent of global carbon dioxide emissions. Scientists estimate that about 160,000 people die yearly from side-effects of global warming ranging from malaria to malnutrition and the numbers could double by 2020.

A 2003 Department of Defense report outlined a plausible abrupt climate change scenario that "would challenge the United States national security in ways that should be considered immediately."

An August 2004 *Business Week* cover story noted that executives at AEP, Exelon and Xcel are preparing for mandatory carbon dioxide emissions constraints. Developments include: more than 90 countries ratifying the Kyoto Protocol; eleven Governors pledging to reduce emissions significantly; and renewable energy standards in sixteen states, indicating increasing support for non-polluting electricity sources. In October 2003, 43 U.S. Senators voted in favor of legislation to cap greenhouse gas emissions from a range of industrial sectors.

Recent reports by CERES, The Carbon Disclosure Project, Innovest Strategic Value Advisors, and the Investor Responsibility Research Center demonstrate the growing financial risks of climate change for US corporations.

Attorneys general from eight states have filed a public nuisance lawsuit demanding that Cinergy, American Electric Power Co., Southern Co., Xcel Energy and Tennessee Valley Authority reduce carbon dioxide emissions 3 percent per year for the next 10 years.

In a July 2004 *Newsweek* story, the insurance company AXA estimated that 20 percent of global GDP is affected by climatic events and, "climatic risk in numerous branches of industry is more important than the risk of interest rates or foreign exchange risk."

In 2004, AEP, Cinergy, TXU, and Southern Company agreed to issue comprehensive reports to shareholders about their financial exposure under potential emissions control scenarios. AEP stated, "some initial mandatory reductions of greenhouse gas emissions are likely in the next decade, the economic impact of controlling greenhouse gas and other emissions thus depends on the company's ability to meet these goals... Management and the Board have a fiduciary duty to carefully assess and disclose to shareholders appropriate information on the company's environmental risk exposure."

RESOLVED: The shareholders request that a committee of independent directors of the Board assess how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other emissions and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

4 Simply studying the risks posed by global warming costs money that management has traditionally avoided spending. One way for shareholder activists to light a fire under the CEO is to point out that the big guys are already doing it. American Electric Power, Cinergy, TXU, and the Southern Company—four of the nation's largest utilities—had already agreed to issue reports on their climate risk in response to similar shareholder resolutions filed the year before. As any manager knows, ignoring a material risk that industry trendsetters are tackling can make investors skittish.

5 Just weeks after this proposal was submitted, Progress executives began talks with the shareholder group and CERES—a coalition of investment funds and environmental organizations that plays a pivotal role in coordinating shareholder activism. In May 2005, at the company's annual meeting, CEO Bob McGehee told stockholders of the "need to address global warming at the national level." By then the company was at work on a report that would not only disclose Progress's carbon emissions but also forecast how it might reconfigure future baseload generation under various carbon-regulation scenarios.

6 Progress estimates that it has 10 years to bring new baseload generation online, and in the interim, it's looking to apply for permits to build both coal and nuclear plants. Because Progress operates in regulated markets where utility commissions determine the economic prudence of new plant construction, it can't decide on its own to build a coal-fired power plant that captures carbon dioxide for storage; no utility commission has been willing to saddle customers with the added expense of building one. And without the ability to prove that it can recoup the higher construction cost of such plants, Progress can't raise the capital to lay a single brick. What does this mean? The sooner greenhouse gas regulations are put in place, the sooner companies like Progress can make the major investments in new, cleaner technologies and facilities that will help put the brakes on global warming.