



MEMO

SUBJECT: Grounds for a **Yes** vote on **Alpha Natural Resources (ticker: ANR)** shareholder proposal requesting a report on the company's efforts to reduce environmental and community impacts associated with its Appalachian mining operations, and how those efforts may reduce legal, reputational and other risks to the company's finances.

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Summary: The Sisters of St. Francis of Philadelphia, primary filers of the 2014 shareholder resolution titled "Environmental & Community Impacts" with Alpha Natural Resources, is seeking a positive recommendation. The resolution was co-filed by 14 other religious, socially responsible investor groups, all members of the Interfaith Center on Corporate Responsibility (ICCR).

A proposal titled "Water Management Report" was filed by the same proponents for placement on ANR's 2013 proxy; it received 26.59% of the vote. This filing requested a report on the company's efforts to reduce the impacts of their Appalachian mining operations on water using Global Reporting Initiative's (GRI) Water Performance Indicators. The company did not provide a report with GRI indicators. The proposal was thus refiled in 2014 with proponents expanding the parameters of the 2013 "ask" to include GRI's Society Performance Indicators on impact assessments and operations with significant actual & potential negative impacts on local communities.

The resolved clause to be included in ANR's 2014 proxy states:

Shareholders request a report, prepared at reasonable cost within six months of the 2014 annual meeting, omitting confidential information, on the company's efforts to reduce environmental and community impacts associated with its Appalachian mining operations, and how those efforts may reduce legal, reputational and other risks to the company's finances. The report should include complete, detailed information for these GRI performance indicators:

- *Percentage and total volume of water recycled and reused. (EN10)*
- *Total water discharge by quality and destination. (EN22)*

- *Total weight of waste by type and disposal method. (EN23)*
- *Identity, size, protected status, and biodiversity value of water bodies and related habitats affected by the reporting organization's discharges of water and runoff. (EN26)*
- *Percentage of operations with implemented local community engagement, impact assessments, and development programs. (SO1)*
- *Operations with significant actual & potential negative impacts on local communities. (SO2)*

Rationale for a Yes vote:

1. **ANR's practice of mountain-top removal significantly impacts the environment, biodiversity and the Appalachian community.** In a January 2010 research paper entitled "Mountaintop Mining Consequences", twelve environmental scientists state "Our analyses of current peer-reviewed studies and of new water-quality data from WV streams revealed serious environmental impacts that mitigation practices cannot successfully address. Published studies also show a high potential for human health impacts."¹
2. **ANR's shareholders bear significant financial impact and risk associated with water-related issues and significant fines regarding water pollution by the company.** On March 5, 2014, the [US Environmental Protection Agency \(EPA\) announced](#) the largest penalty ever levied under the Clean Water Act. The Consent Decree, negotiated with Alpha Natural Resources to resolve Clean Water Act claims between 2006 and 2013 in Kentucky, Pennsylvania, Tennessee, Virginia, and West Virginia references approximately 6,289 violations from 79 active mines and 25 processing plants. Alpha will pay a civil penalty of \$27,500,000 for its Clean Water Act violations; \$13,750,000 will go to the United States, \$8,937,500 to West Virginia, \$4,125,000 to Pennsylvania, and \$687,500 to Kentucky.
3. **ANR provides an insufficient level of detail to determine how the company is managing its water risk, presenting a material risk to investors.** The company reports the water quality compliance rate in general, but does not offer sufficient information on risks related to non-compliance, violations, permit limit exceedances; nor does the company disclose total amount of water used, the percentage of water recycled or reused, total water discharge, nor how often testing was conducted, chemicals and elements included in tests.

1. ANR'S PRACTICE OF MOUNTAIN-TOP REMOVAL SIGNIFICANTLY IMPACTS THE ENVIRONMENT, BIODIVERSITY AND THE APPALACHIAN COMMUNITY

- According to the US Environmental Protection Agency (EPA), "Mountaintop mining is a form of surface coal mining in which the natural vegetation from the upper topography of a mountain is removed, and then heavy equipment and explosives are used to level the upper sections to expose seams of coal. As the tops of mountains are removed, what was

¹ Palmer, M. A., et al. "Mountaintop Mining Consequences." *Science* 327 (2010): 148-149.

once the underlying earth and rock becomes valley fill, filling in adjacent valleys and burying nearby streams. Geographers estimate that almost 2,000 miles of small, upper level Appalachian “headwater” streams have been buried by mountaintop coal mining.”²

- Surface mining has significant environmental and human health consequences. In its announcement of the settlement, the EPA states:
 - “A number of ecological concerns surround mountaintop mining and valley fill. Much of that concern centers on water quality. Burial of headwater streams causes permanent loss of aquatic ecosystems that play critical roles in ecological processes, such as the cycling and flow of nutrients between the environment and living organisms and the stability of the food web. These small Appalachian streams also support abundant and diverse types of aquatic organisms that are unique to the area. In addition, the removal of natural vegetation and physical changes to the soil and topography greatly impact water runoff, flow, and quality. Water that flows over and through valleys with valley fill is known to contain greatly elevated concentrations of chemical ions (salts), as well as other substances. A growing body of scientific literature, including studies conducted by EPA researchers, shows significant damage to local streams that are polluted with the mining runoff from mountaintop mining.”³
 - “Surface mining discharges impair streams and watersheds. Sediment-laden runoff can result in increased turbidity and decreased oxygen in receiving waters, which in turn can result in loss of in-stream habitat for fish and other aquatic species. Sediment can kill fish directly, destroy spawning beds, suffocate fish eggs and bottom dwelling organisms, and block sunlight resulting in reduced growth of beneficial aquatic grasses. Excess levels of metals commonly found in mining discharges, such as iron and aluminum, can be toxic to fish by disrupting metabolic and reproductive systems. Precipitation of these metals can destroy habitat needed by macro invertebrates.”⁴

2. ANR’S SHAREHOLDERS BEAR SIGNIFICANT FINANCIAL IMPACT AND RISK ASSOCIATED WITH WATER-RELATED ISSUES AND SIGNIFICANT FINES REGARDING WATER POLLUTION BY THE COMPANY.

- ANR references a 99.8% water quality compliance rate for 2013. The company claimed a 99.7% rate for 2011 and 2012 in their published Sustainability Reports for those years. These boasts lose their luster in light of the U.S. Environmental Protection Agency’s (EPA) [March 5, 2014 announcement](#) of the largest penalty ever levied under the Clean Water Act. The Consent Decree, negotiated with Alpha Natural Resources to resolve Clean Water Act claims between 2006 and 2013 in Kentucky, Pennsylvania, Tennessee,

²Environmental Protection Agency. "EPA Science on Mountaintop Mining: Researchers release two scientific reports to support Agency’s new guidance for mountaintop mining," <http://www.epa.gov/sciencematters/august2010/mountaintop.htm> [Accessed 25 March 2014]

³ Ibid.

⁴Environmental Protection Agency. “Alpha Natural Resources Inc. Settlement,” <http://www2.epa.gov/enforcement/alpha-natural-resources-inc-settlement> [Accessed 25 March 2014]

Virginia, and West Virginia references approximately 6,289 violations from 79 active mines and 25 processing plants.

- The EPA reported that ANR discharged heavy metals and other contaminants harmful to fish and other wildlife from nearly 800 outfall pipes directly into rivers, streams and tributaries. Monitoring records attached to the government’s complaint show that in some cases, the releases exceeded permit limits by 35 times.
- ANR’s states in its 2011 Sustainability Report that, since January 2010, the company “has spent approximately \$33 million on research and development and equity investments in coal-related technology companies to address issues ranging from improved water treatment to reduced carbon emissions.” The government’s \$27.5 million fine and their requirement that the company spend \$200 million to reduce illegal toxic discharges into hundreds of waterways across five states suggest that Alpha’s efforts to date have been colossally ineffective, despite their claims that they have a “strong record of compliance.”
- Shareholders were blindsided by the record EPA penalty. Alpha Natural Resources owes investors complete disclosure on the financial and legal implications of their operations.

3. ANR PROVIDES AN INSUFFICIENT LEVEL OF DETAIL TO DETERMINE HOW THE COMPANY IS MANAGING ITS WATER RISK, PRESENTING A MATERIAL RISK TO INVESTORS.

- It is vital that investors have access to high quality information on how water-related risks threaten corporate operations, both directly and within their supply chains, in order to make better informed decisions and direct the flow of capital away from risks and towards solutions.
- ANR provides inadequate disclosure of its water use and discharges and its strategies to reduce risks associated with them. The company does not disclose its environmental performance via GRI indicators nor through the Carbon Disclosure Project Water Questionnaire.
- ICCR shareholder groups have met with ANR in dialogue on January 13, 2012; May 16, 2012; February 19, 2013; and December 19, 2013, specifically to discuss the environmental (including water and biodiversity) and social impacts of their operations. Transparency was lacking, as Alpha’s representatives made no mention of specific Clean Water Act violations or pending action by the EPA.

Conclusion

Shareholders need to know how ANR will significantly reduce water use and pollution from the company’s operations in light of historic fines, and how it will engage with and mitigate impacts on communities. A Yes vote on this resolution will encourage management to further develop and disclose this material information to investors. We urge shareholders to vote in support of this proposal.

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WHEREAS: In Alpha Natural Resources' initial Sustainability Report, Fueling Progress 2011, the company reports the water quality compliance rate in general, but offers no specifics on total water withdrawn, how often testing was conducted, chemicals and elements included in tests, or the percentage of water recycled or reused.

In a January 2010 research paper entitled "Mountaintop Mining Consequences", twelve environmental scientists state "Our analyses of current peer-reviewed studies and of new water-quality data from WV streams revealed serious environmental impacts that mitigation practices cannot successfully address. Published studies also show a high potential for human health impacts". (Science 8 January 2010: Vol. 327 #5962 pp 148-149)

In its March 2011 report on "The Effects of Mountaintop Mines and Valley Fills on Aquatic Ecosystems of the Central Appalachian Coalfields", the U.S. EPA found that mountaintop mines and valley fills lead to the permanent loss of springs and small streams, concentrations of persistently elevated chemical ion levels downstream, degraded water quality, and selenium concentrations that have caused toxic effects on fish and birds. (EPA/600/R-09/138F, page 1)

A 2009 study titled "The association between mountaintop mining and birth defects among live births in central Appalachia, 1996-2003" revealed that birth defect rates for six of seven types of defects, including circulatory/respiratory, central nervous system, musculoskeletal, urogenital and gastrointestinal, were significantly higher in mountaintop areas compared to non-mining areas.

Recent published peer-reviewed scientific research has revealed significant possible associations between MTR mining and disparities in birth defects (Ahern, 2011), mortality (Hendryx, 2009; 2011a), cardiovascular disease (Esch & Hendryx, 2011), cancer (Hendryx, 2011b), mental health (Zhang, 2008), and overall health-related quality of life (Zullig & Hendryx, 2011), further suggesting that MTR mining is a contributing factor to poor health outcomes.

Organizations such as the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD), Carbon Disclosure Project (CDP) offer tools on assessment, mapping, and measurement of an organization's operations on water.

RESOLVED: Shareholders request a report, prepared at reasonable cost within six months of the 2014 annual meeting, omitting confidential information, on the company's efforts to reduce environmental and community impacts associated with its Appalachian mining operations, and how those efforts may reduce legal, reputational and other risks to the company's finances. The report should include complete, detailed information for these GRI performance indicators:

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