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The Education of Warren Buffett

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Rallies, lawsuits, petition drives, sit-ins, street theater—these are not just abstract tactics. They are aimed at changing decisions in the real world. But do they work? As described in the previous chapter, sociologist Jon Agnone has come up with compelling data to support his "amplification model of public policy impact," which explains how citizen protests end up affecting legislation. That would be more encouraging for the anti-coal movement if the key decisions about energy policy in the United States were actually determined by the democratic process. But many—perhaps most—are not. Rather, they are made in executive suites and boardrooms by decision makers who never run for public office. These men and women are legally accountable to maximize their corporations' bottom lines, not to any broader concern. Their power is buttressed by a judicial and political framework systematically rigged to protect their prerogatives. Summarizing this reality, former UN ambassador Andrew Young once said, "Nothing is illegal if 100 businessmen decide to do it."

Yet some activists saw that very concentration of power in

Table 1: Key Private Sector Decision Makers on Coal

CEO	Company/Entity	Units*	Capacity (MW)†
Michael G. Morris	AEP	63	27,636
David M. Ratcliffe	Southern Company	68	26,610
James Rogers	Duke Energy	70	18,578
Tom D. Kilgore	TVA	63	17,647
Gary L. Rainwater	Ameren	31	10,719
G. Abel / W. Buffett	MidAmerican (Berkshire)	29	10,281
John W. Rowe	Exelon	21	9,415
Richard C. Kelly	Xcel Energy	30	9,021
David W. Crane	NRG Energy	26	8,657
Anthony J. Alexander	FirstEnergy	36	8,495
Thomas F. Farrell II	Dominion	32	8,417
Wulf H. Bernotat	E.ON	29	8,347
Mark M. Jacobs	Reliant Energy	26	8,133
Anthony F. Earley Jr.	DTE Energy	22	7,997
William D. Johnson	Progress Energy	23	7,924
Paul J. Evanson	Allegheny Energy	22	7,636
David Campbell	Luminant	9	6,137
James H. Miller	PPL	13	5,981
Paul Hanrahan	AES	29	5,406
Edward R. Muller	Mirant	18	4,075
William D. Harvey	Alliant Energy	30	4,055
J. Wayne Leonard	Entergy	5	4,014
Bruce A. Williamson	Dynegy	12	3,755
Paul M. Barbas	DPL	11	3,521
Robert C. Skaggs Jr.	NiSource	10	3,470

*Units: Number of coal-fired generating units in the United States in 2005.
†Capacity: Coal-fired generating capacity in 2005 expressed in megawatts (MW).

individual hands as a potential point of leverage. As shown in table 1, a mere two dozen chief executive officers control the fate of over 70 percent of all coal-fired power generation in the United States. Might it be possible that subjecting these men to direct pressure—including reminding them that destroying the climate would affect their own children and grandchildren—could produce some sort of awakening? Alternatively, even if those with inordinate private power were impervious to the fate of the planet, might they at least care about their public images?

James Hansen, for one, seemed to think that coal and utility executives could be swayed by direct appeals. His message was blunt: "CEOs of fossil energy companies know what they are doing and are aware of long-term consequences of continued business as usual. In my opinion, these CEOs should be tried for high crimes against humanity and nature."

Hansen also sought to engage fossil executives directly. In a letter to Duke Energy CEO James Rogers, he wrote "a plea for cooperation and leadership":

March 25, 2008

To: Mr. James E. Rogers, Chairman, President and Chief Executive Officer, Duke Energy
From: Jim Hansen, Columbia University Earth Institute
Subject: A Plea for Cooperation and Leadership

Mr. Rogers, as a leader in the electric power industry, your decisions will affect not only energy bills faced by your customers, but the future planet that your children and grandchildren inherit. If you insist that new coal plants are essential for near-term power needs, you may submit your company and your customers to grave financial risk, and leave a legacy that you will regret.

Scientific evidence of human-made climate change has crystallized, and it has become clear that continued emissions carry great danger. These facts fundamentally change liabilities. And liabilities

> will be increased by any "success" of industry efforts to confuse the public about the reality and likely consequences of human-caused climate change and to promote false "solutions" such as new "cleaner" coal plants.
>
> Surely the number of people pressing these legal cases will grow, and they will be inexorable in pursuing justice. And assuredly, in the long run, the energy companies will lose the legal battles.
>
> Unfortunately, although the public will ultimately hold polluters accountable, it will not necessarily be soon enough or have enough impact to prevent environmental and human disasters. It may drag out as in the tobacco case, but with much more serious consequences.
>
> Mr. Rogers, this is a path that, for the sake of our children and grandchildren, we cannot follow. Enlightened leadership is desperately needed in planning our energy future. As a captain of industry, you can help inspire this country and the world to take the bold actions that are essential if we are to retain a hospitable climate and a prosperous future. I am reaching out to you, Mr. Rogers, because you are uniquely positioned to influence others in your industry, and because your statements suggest that you comprehend the gravity of the problems we face.

Hansen's words had no discernable effect on Rogers, who continued pursuing two coal plants, one at Cliffside in North Carolina and the other at Edwardsport in Indiana.

Other activists chose a more blunt tool: ridicule. Wearing black suits and top hats that looked like smokestacks while ostentatiously sipping martinis, Billionaires for Coal held mock conventions in New York City and Houston celebrating the coal investments of Merrill Lynch. In Richmond, Virginia, they partied in front of Dominion Power's headquarters; the We Love Money String Band provided entertainment and assured the audience that "we're only in it for the money."

Beginning in 2004 Rising Tide and the Energy Action Coalition organized Fossil Fools Day each April, staging humorous actions and bestowing mock awards known as Foolies on energy executives. One coal mogul who managed to escape public ridicule was Warren Buffett. His house in Omaha hadn't been picketed; he hadn't received a Foolie; and no one had shoved a key lime pie in his face (a common tactic in England). Yet only a handful of men oversaw more coal plants than MidAmerican Energy, a subsidiary of Warren Buffett's holding company, Berkshire Hathaway. In all, MidAmerican Energy's operations included twenty-nine coal plants, and the company was planning at least seven more. One of those was a 760-megawatt unit in Iowa, which in the summer of 2007 was about to go online. A second was planned for Delta, Utah, and a third for Rock Springs, Wyoming. At least four others would be built in the Rocky Mountain region at locations that had not yet been determined.

Given Buffett's general experience of being worshipped by grateful stockholders, I wondered how he might react to the kind of derisive attention that groups like Billionaires for Coal were so good at dishing out. Before I had a chance to find out, however, Buffett had quietly exited the stage, canceling all the coal plants (with the exception of the now-completed Iowa plant) that he had been planning to build just a year earlier. In late 2007 his PacifiCorp subsidiary told regulators it planned to supply future electricity demand growth through geothermal, wind, solar thermal, compressed air storage, conservation programs, and natural gas. Plans to build new coal plants were off the table.

What accounted for Buffett's change of direction? We can only venture some educated guesses, since the investment guru declined to reflect publicly on the decision, a notable departure from his usual practice of explaining his major moves in an annual letter to Berkshire Hathaway's shareholders. This was a big disappointment. Buffett is famous for the candor and clarity of his commentaries, and his insights into American social and business trends can often be profound. Due to his legendary record as an investor and corporate strategist, his discourses on business are often studied like tutorials across the business world. When Buffett exited coal without explanation, an opportunity for helping the world of commerce begin to conceive of a post-carbon future was unfortunately missed. Reconstructing the sequence of events that led Berkshire Hathaway and MidAmerican Energy to abandon their plans for new coal plants may make it possible to arrive at the underlying rationales for the decisions, thereby articulating the emerging business case for moving beyond coal.

Before canceling the plants he had intended to build, Buffett seemed to love coal. His involvement with building coal plants began when Berkshire Hathaway bought MidAmerican Energy Holdings in 1999. MidAmerican was a big operator of coal plants, and as natural gas prices edged toward a huge leap upward—bringing coal back into favor—the purchase of MidAmerican appeared to be a typically savvy Buffett move.

In 2006 Buffett picked up another utility, PacifiCorp, which included Rocky Mountain Power and operated in California, Idaho, Oregon, Utah, Washington, and Wyoming. Again, it seemed like a smart play, bringing MidAmerican's expertise with building and running coal plants to a region of the country with lots of coal. Sure enough, in the fall of 2006, PacifiCorp presented regulators with plans for half a dozen coal plants to be built in Utah and Wyoming over the coming twelve-year time period, representing approximately 3,000 megawatts of new capacity.

The first sign that a major change was afoot in Buffett's coal strategy came in May 2007, when PacifiCorp released a new iteration of its Integrated Resource Plan, a massive document periodically provided to utility regulators in Oregon. Buried in the document was a huge change in PacifiCorp's coal strategy: four coal plants that had been shown in previous versions of the plan were now omitted.

It is clear that the cancellation of these first four plants was not the result of any sort of personal awakening on Buffett's part about the urgency of climate change. Rather, PacifiCorp was bowing to pressure by state governments in California, Oregon, and Washington. In a footnote to the May Integrated Resource Plan, company planners listed the following factors: "the Oregon PUC rejection of the 2012 RFP [Request for Proposals] for baseload resources and issuance of new IRP guidelines (January 2006), adoption of renewable portfolio standards in Washington, California's adoption of a greenhouse gas performance standard, and introduction of climate change legislation in both Oregon and Washington."

Further evidence that the elimination of four coal plants from PacifiCorp's plan was driven by outside pressure from state regulators rather than by a change in the sentiments of Buffett or his executive staff can be gleaned from comments by Charles Munger, vice chairman of Berkshire Hathaway, at the company's annual meeting in May 2007. In response to a question about global warming, Munger said, "What we are really talking about with global warming is dislocation. Dislocations could cause agony. The sea level rising would be resolved with enough time and enough capital. I don't think it's an utter calamity for mankind, though. You'd have to be a pot-smoking journalism student to think that."

Like Munger, Buffett's partner-in-philanthropy Bill Gates, Jr., also downplayed the urgency of the climate crisis. The views of Gates on social concerns are relevant to gleaning Buffett's views; after all, only months earlier Buffett had announced that he was donating approximately 70 percent of his fortune to the Bill and Melinda Gates Foundation. In April 2007 Gates told a forum in Beijing, "Well, fortunately climate change, although it's a huge challenge, it's a challenge that happens over a long period of time. And so [according to] most of the forecasts about by the year 2100 the ocean will have risen perhaps a foot and a half. You know, we have time to work on that."

It is hard to imagine both Munger and Gates displaying such complacency about climate change if Buffett felt much differently, at least as of the spring of 2007. But by the end of the year, Buffett would cancel two more plants for reasons that seem less clearly driven by pressure coming from state regulators. The two cancellations were announced on November 28, 2007, in a letter sent by PacifiCorp to regulators in Utah and Oregon. The explanation was terse: "Within the last few months, most of the planned coal plants in the United States have been canceled, denied permits, or been involved in protracted litigation."

The reference to litigation suggests that the management of MidAmerican had been watching the ongoing fights over coal plants in states like Kansas, Minnesota, Delaware, Texas, and Florida and had concluded that it preferred not to enter that sort of legal gauntlet. In fact, one of the two proposals, the Intermountain Power Project Unit 3, had already landed in court. The majority cosponsors of Intermountain Units 1 and 2 were a group of six California cities: Los Angeles, Pasadena, Anaheim, Burbank, Glendale, and Riverside. Prohibited by California climate laws from using Unit 3's power, the six cities had decided to actively block the new unit. MidAmerica's PacifiCorp unit had originally threatened its municipal partners in the project with legal action to force their participation. But with its November announcement, PacifiCorp waved the white flag.

The second of the two final cancellations, a new unit at the existing Jim Bridger station in Wyoming, was not the subject of any litigation. Nevertheless, Buffett's managers may have informed him that even in coal-friendly Wyoming, the project would inevitably become controversial. With every passing month, the breadth of the anti-coal movement in the Mountain States was growing. At the radical end of the spectrum, Cascadia Rising Tide, Stumptown Earth First!, and the Convergence for Climate Action had already blocked PacifiCorp's headquarters in August 2007 with a "human dam." As youth-based direct action continued to ramp up, such protests were certain to become more and more frequent.

Pursuing more conventional political channels, local citizens in Utah with the group Sevier Citizens for Clean Air and Power were beginning to push for a grassroots initiative that would mandate a public vote on any new coal-fired power plant in the area. Grassroots activity like that in Sevier could be found in every state in the Mountain States region, much of it directed at PacifiCorp. Meanwhile, mainstream environmental and civic groups were investing hundreds of staff and member hours in state utility oversight proceedings, especially in Oregon. Among the most active of such groups were the Northwest Energy Coalition, Citizens' Utility Board of Oregon, Ecumenical Ministries of Oregon, the Renewable Northwest Project, Western Resource Advocates, and Sierra Club Utah Chapter. The Northwest Energy Coalition alone represented over one hundred organizations, including solar companies, public power agencies, environmental groups, civic groups, and housing authorities.

Mayors in several Rocky Mountain states were also speaking out against new coal plants, including the mayor of Park City, Utah, Dana Wilson, who wrote a letter to Buffett expressing the city's opposition to new coal plants.

Even some members of the business community were beginning to apply public pressure on Buffett to drop his coal plans. In Salt Lake City, commercial real estate broker Alexander Lofft initiated a petition drive that collected 1,600 signatures from a "collection of citizens, business owners and managers, service professionals, public servants, and organization representatives ... your friends and new customers here in Utah." In a letter accompanying the petition, Lofft's ad hoc group wrote that any further expansion of coal generation in Utah would "compromise our health, obscure our viewsheds, shrink and contaminate our watersheds, and thin out our most beloved snowpack." It continued: "Our attractiveness as a place to live and work is also threatened, and so is our economic competitiveness as a major metro area and a state, compromising our recent gains in income and property values."

It is hard to avoid the conclusion that the accumulation of pressure from so many points on the political spectrum did indeed have a telling effect on Buffett as well as on his lieutenants, MidAmerican chairman David Sokol and PacifiCorp chairman Gregory Abel. According to Buffett's 2008 annual letter to his shareholders, decisions on "major moves" at MidAmerican are made only when he, Sokol, and Abel "are unanimous in thinking them wise." Sokol, like Buffett an Omaha native and resident, is a seasoned utility executive whose résumé included building geothermal facilities (CalEnergy) and coal (the controversial

Council Bluffs Unit 4 power plant). In the midst of the budding controversy over Buffett's coal plans, Sokol announced that he was stepping down as CEO of MidAmerican in order to assume a larger role in Berkshire Hathaway. Industry observers speculated that Sokol was being groomed to eventually replace Buffett himself, either as the company's leader or as one of a troika of leaders.

As he prepared to step into the shoes of a man who is widely seen as a de facto statesman of American business, it is conceivable that Sokol preferred not to invite the image problems that a protracted fight over coal might entail.

On the whole, Buffett's change of direction on coal shows a striking similarily to his change of direction in the early 1990s from a pro-tobacco investment posture to a policy that was much more wary of such investments. In 1987 Buffett told John Gutfreund of Salomon, "I'll tell you why I like the cigarette business. It costs a penny to make. Sell it for a dollar. It's addictive. And there's fantastic brand loyalty."

By 1994 Buffett's statements on tobacco had shifted notably. He told Berkshire Hathaway's annual meeting that tobacco investments are "fraught with questions that relate to societal attitudes and those of the present administration… I would not like to have a significant percentage of my net worth invested in tobacco businesses."

What we can conclude from all this is that stigmatizing coal and putting direct pressure on utility executives probably does work, especially when it comes on top of other forms of pressure. Just as he had with tobacco, Buffett got the message that America was about to start sending coal-boosting executives to the woodshed. For other CEOs, either the "Aha!" moment took somewhat longer to sink in or the inertia of their pending investment programs was too powerful to quickly overcome. Less quick on their feet, Dynegy's Bruce Williamson, Duke's James Rogers, and TVA's Tom Kilgore would all be soon receiving their Fossil Fool, Corporate Scrooge, and other badges of dishonor.

What caused Warren Buffett to cancel six coal plants? All of the following must be given their due: (1) strict carbon dioxide emissions standards enacted in California and Washington; (2) renewable portfolio standards in California and Washington; (3) climate change legislation in Oregon, California, and Washington; (4) rising construction costs for coal plants; (5) increased competitiveness of alternatives such as wind; (6) the prospect of national carbon legislation; (7) Oregon's integrated resource planning process; (8) regulatory participation by mainstream environmental groups such as the Northwest Energy Coalition; (9) litigation and the threat of litigation by groups such as the Sierra Club; (10) a medley of citizen actions that "raised the negatives" for coal, including anti-coal statements by mayors in several Rocky Mountain cities, direct action protests by groups such as Rising Tide, Alexander Lofft's petition drive in Utah, personal advocacy by prominent figures such as James Hansen, and concerted campaigns to place a public stigma on coal, such as the Foolie awards.

Although activists will always carry on debates among themselves about which tactics are the most effective, the real lesson to be gleaned here is the value of the widest possible range of approaches and the involvement of multiple organizations and sectors of society. This is the "swarm" in operation—the best hope for winning the war to stop coal and prevent needless climate chaos.

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