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Vanguard Investment Stewardship Insights

Shareholder proposal requesting Scopes 1 and 2 emissions targets at Kinder Morgan, Inc.

June 2024

Company: Kinder Morgan, Inc. (Kinder Morgan)

Meeting date: May 8, 2024

Proposal(s): Item 5: Stockholder proposal relating to establishing a greenhouse gas emission reduction target

How the funds voted

At the 2024 annual meeting of Kinder Morgan, a U.S.-listed energy infrastructure company, the Vanguard-advised funds voted against a shareholder proposal requesting the company set an emissions reduction target covering Scopes 1 and 2 greenhouse gas (GHG) emissions.[1]

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate all shareholder proposals on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. At companies where climate matters present material risks, the funds may support shareholder proposals that seek reasonable and effective disclosure of Scopes 1 and 2 emissions data and relevant categories of Scope 3 data. The funds may also support proposals that ask companies to pursue and disclose climate risk mitigation metrics and goals when material to a company's stated long-term strategy.

We believe that boards that are most effective in safeguarding long-term shareholder returns from material climate-related risks demonstrate:

Relevant risk competence. Where climate matters are material to a company, we look for boards to be competent in relevant risks so that they can foster healthy debate, challenge management assumptions, and make informed decisions.

Robust oversight and mitigation of material climate risks. We look to understand boards' processes for overseeing and mitigating material risks on behalf of shareholders. Highly engaged and effective boards are well positioned to ensure that material issues, including material climate risks and opportunities, are considered in both short- and long-term planning.

Effective disclosure of material climate risks and attendant oversight practices. We look for companies to disclose to the market how their board oversees material climate risks and related climate strategies in alignment with accepted investor-oriented disclosure frameworks such as the Task Force on Climate-related Financial Disclosures and its successor framework.

1 Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Analysis and voting rationale

Over the last several years, we have maintained an ongoing dialogue with Kinder Morgan leaders. Among the topics regularly discussed have been the board's governance and oversight of material risks to long-term shareholder returns. Ahead of Kinder Morgan's 2024 annual meeting, we engaged with members of the management team to discuss a shareholder proposal which requested the company set a reduction target covering Scopes 1 and 2 GHG emissions.

During the engagement, we shared how we evaluate climate-related shareholder proposals and sought to understand the board's approach to oversight of material climate risks at Kinder Morgan, as well as the board's approach to mitigating such risks. When discussing the shareholder proposal, Kinder Morgan leaders shared their perspective that setting Scopes 1 and 2 reduction targets, as the proposal requests, would require a change to the company's strategy and result in unnecessary costs and risks to shareholders. In its proxy statement, Kinder Morgan noted that the majority of its Scopes 1 and 2 emissions come from natural gas combustion to power its compressor stations.

Additionally, the company already disclosed a variety of emissions reduction strategies, including for a portion of their methane emissions, and described future expectations for those strategies. The company noted that 16% of its Scopes 1 and 2 emissions came from vented and fugitive methane emissions, and that it had a 2025 methane intensity target in place for these emissions. During our engagement, we discussed how the company anticipates approaching the evolution of such targets over time. Company leaders acknowledged that they are considering potential changes to their goals, which will depend upon available technologies and regulations. Company leaders also stated that, while reducing emissions is important, the company has already set targets that are within its control and align to the company's stated strategy, noting that GHG reduction strategies must be compatible with the company's business purpose in a manner that creates returns for shareholders. The company believes it would not be consistent with management's philosophy to communicate Scopes 1 and 2 GHG reduction targets it could not reasonably achieve through actions within its own control.

Through our analysis, we determined that the proposal addressed a material risk for the company but ultimately concluded that the requested action would necessitate a change in company strategy. We also noted that Kinder Morgan had set targets that the board deemed appropriate for its business. The Vanguard-advised funds do not seek to direct company strategy, inclusive of climate-related strategies, and therefore, the funds did not support the shareholder proposal. We plan to continue to engage with Kinder Morgan leaders to inform our understanding of the board's governance and oversight processes and how the company is being managed to deliver long-term shareholder returns in an evolving market.

Vanguard publishes information regarding its voting and engagement activities, including the funds' proxy voting policies, Insights, and quarterly reports, to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our effort to provide useful disclosure of Vanguard's investment stewardship activities. We aim to provide clarity on Vanguard's positions on governance matters beyond what a policy document or a single vote can provide.

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