

The Carbon Principles

The Intent

We the undersigned financial institutions have come together to advance a set of principles for meeting energy needs in the United States (US) that balance cost, reliability and greenhouse gas (GHG) concerns.¹ The principles focus on a portfolio approach that includes efficiency, renewable and low carbon power sources, as well as centralized generation sources in light of concerns regarding the impact of GHG emissions while recognizing the need to provide reliable power at a reasonable cost to consumers. The Carbon Principles (“the Principles”) represent the first time that financial institutions, advised by their clients and environmental advocacy groups, have jointly committed to advance a consistent approach to the issue of climate change in the US electric power industry.

We advance these Principles to create an industry best practice for the evaluation of options to meet the electric power needs of the US in an environmentally responsible and cost effective manner. When evaluating the financing of new fossil fuel generation we will be guided by the Principles and employ the accompanying Enhanced Environmental Diligence Process (the “Enhanced Diligence Process”) to assess project economics and financing parameters related to the uncertainties around current climate change policy in the US. The Enhanced Diligence Process will evaluate the ability of the proposed financing to meet financial requirements under a range of potential GHG emissions assumptions and parameters. These assumptions will include policies regarding CO₂ emission controls and potential future CO₂ emissions costs as well as the costs and feasibility of mitigating technologies or other mechanisms. Due to the uncertainties around many of these factors, the Enhanced Diligence Process will encourage consideration of assumptions that err on the side of caution until more clarity on these issues is available to developers, lenders and investors. Financial institutions that adopt the Principles will implement them with the accompanying Enhanced Diligence Process, while consulting with environmental groups and energy companies.

The Carbon Principles

Energy efficiency. An effective way to limit CO₂ emissions is to not produce them. We will encourage clients to invest in cost-effective demand reduction, taking into consideration the potential value of avoided CO₂ emissions. We will also encourage regulatory and legislative changes that increase efficiency in electricity consumption including the removal of barriers to investment in cost-effective demand reduction. We will consider demand reduction caused by increased energy efficiency (or other means) as part of the Enhanced Diligence Process and assess its impact on proposed financings of new fossil fuel generation.

Renewable and low carbon energy technologies. Renewable energy and low carbon distributed energy technologies hold considerable promise for meeting the electricity needs of the US while also leveraging American technology and creating jobs. We will encourage clients to invest in cost-effective renewables, fuel cells and other low carbon technologies, taking into consideration the potential value of avoided CO₂ emissions.

¹ We consider all greenhouse gases but refer to CO₂ which is the most significant.

We will also support legislative and regulatory changes that remove barriers to, and promote such investments (including related investments in infrastructure and equipment needed to support the connection of renewable sources to the system). We will consider production increases from renewable and low carbon generation as part of the Enhanced Diligence Process and assess their impact on proposed financings of new fossil fuel generation.

Conventional or Advanced generation. In addition to cost effective energy efficiency, renewables and low carbon generation, we believe investments in other generating technologies likely will be needed to supply reliable electric power to the US market. This may include power from natural gas, coal and nuclear² technologies. Due to evolving climate policy, investing in CO₂-emitting fossil fuel generation entails uncertain financial, regulatory and environmental liability risks. It is the purpose of the Enhanced Diligence Process to assess and reflect these risks in the financing considerations for fossil fuel generation. We will encourage regulatory and legislative changes that facilitate carbon mitigation technologies such as carbon capture and storage (CCS) to further reduce CO₂ emissions from the electric sector.

New fossil fuel generation constructed with conventional technology, if not accompanied by mitigation measures, will increase the emission of CO₂ into the atmosphere at a time when federal and state level emissions controls seem likely and, in some regions of the country, are already mandated. An important aspect of the Enhanced Diligence Process will be to evaluate the mitigation strategy and plan of the developer to address the risks posed by the increased CO₂ emissions from new sources when future emissions controls are uncertain. For projects proposed in jurisdictions that already have controls on emissions in place, the developer will need to show how the new generation will be consistent with the existing rules and potential changes going forward. However, in the absence of regional or federal regulations, the development plan will need to account for the added risks due to the uncertainties around future emissions limits.

The Commitments

Adopters commit to:

- ▶ Encourage clients to pursue cost-effective energy efficiency, renewable energy and other low carbon alternatives to conventional generation, taking into consideration the potential value of avoided CO₂ emissions.
- ▶ Ascertain and evaluate the financial and operational risk to fossil fuel generation financings posed by the prospect of domestic CO₂ emissions controls through the application of the Enhanced Diligence Process. Use the results of this diligence as a contribution to the determination whether a transaction is eligible for financing and under what terms.
- ▶ Educate clients, regulators, and other industry participants regarding the additional diligence required for fossil fuel generation financings, and encourage regulatory and legislative changes consistent with the Principles.

² It is recognized that nuclear plants carry a host of risks that financial institutions must consider, but which are outside the scope of these principles.

We Adopt the above Principles and Commitments

Citi

JP Morgan Chase

Morgan Stanley