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Leading Wall Street Banks Establish The Carbon Principles

Guidelines to strengthen environmental and economic risk management in the financing and construction of electricity generation

NEW YORK – Three of the world's leading financial institutions today announced the formation of The Carbon Principles, climate change guidelines for advisors and lenders to power companies in the United States. These Principles are the result of a nine-month intensive effort to create an approach to evaluating and addressing carbon risks in the financing of electric power projects. The need for these Principles is driven by the risks faced by the power industry as utilities, independent producers, regulators, lenders and investors deal with the uncertainties around regional and national climate change policy.

The Principles were developed in partnership by Citi, JPMorgan Chase and Morgan Stanley, and in consultation with leading power companies American Electric Power, CMS Energy, DTE Energy, NRG Energy, PSEG, Sempra and Southern Company. Environmental Defense and the Natural Resources Defense Council, environmental non-governmental organizations, also advised on the creation of the Principles.

This effort is the first time a group of banks has come together and consulted with power companies and environmental groups to develop a process for understanding carbon risk around power sector investments needed to meet future economic growth and the needs of consumers for reliable and affordable energy. The consortium has developed an Enhanced Diligence framework to help lenders better understand and evaluate the potential carbon risks associated with coal plant investments.

The Principles recognize the benefits of a portfolio approach to meeting the power needs of consumers, without prescribing how power companies should act to meet these needs. However, if high carbon dioxide-emitting technologies are selected by power companies, the signatory banks have agreed to follow the Enhanced Diligence process and factor these risks and potential mitigants into the final financing decision.

"There was full and frank dialogue around the table," said Matt Arnold, director of Sustainable Finance, which helped coordinate the development of the Principles and Enhanced Diligence process. "There was a remarkable amount of debate and exchange of information and views among the banks, power companies and environmental organizations. The dialogue resulted in a rigorous analysis of the carbon risks in power investments, and sets the stage for further discussion."

Citi, JPMorgan Chase and Morgan Stanley have pledged their commitment to the Principles to use as a framework when talking about these issues with clients. This effort creates a consistent approach among major lenders and advisors in evaluating climate change risks and opportunities in the US electric power industry. The Principles and associated Enhanced Diligence represent a first step in a process aimed at providing banks and their power industry clients with a consistent roadmap for reducing the regulatory and financial risks associated with greenhouse gas emissions.

The Principles are:

Energy efficiency. An effective way to limit CO_2 emissions is to not produce them. The signatory financial institutions will encourage clients to invest in cost-effective demand reduction, taking into consideration the value of avoided CO_2 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. The institutions 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 certain new fossil fuel generation.

Renewable and low carbon distributed 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 and distributed technologies, taking into consideration the value of avoided CO_2 emissions. We will also encourage 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 certain new fossil fuel generation.

***Conventional and advanced generation*.** In addition to cost effective energy efficiency, renewables and low carbon distributed generation, investments in conventional or advanced generating facilities will be needed to supply reliable electric power to the US market. This may include power from natural gas, coal and nuclear technologies. Due to evolving climate policy, investing in CO_2-emitting fossil fuel generation entails uncertain financial, regulatory and certain environmental liability risks. It is the purpose of the Enhanced Diligence process to assess and reflect these risks in the financing considerations for certain fossil fuel generation. We will encourage regulatory and legislative changes that facilitate carbon capture and storage (CCS) to further reduce CO_2 emissions from the electric sector.

“Leading utilities and financial institutions understand that the rules of the road have changed for coal,” said Mark Brownstein, managing director of business partnerships for Environmental Defense, one of the NGOs that advised with the banks in creating the Principles. “These principles are a first step in facilitating an honest assessment of electric generation options in light of the obvious and pressing need to substantially reduce national greenhouse gas pollution.”

Dale Bryk, senior attorney at the Natural Resources Defense Council added, "Expectations are rising fast for this industry. Global warming is changing the competitive landscape. Clean power is the name of the game today. Conventional coal facilities are already facing intensive scrutiny. We think the serious money is increasingly going to be on clean, efficient solutions."

Power Industry Comments on The Carbon Principles

American Electric Power (AEP), Columbus, OH:
"A rational set of carbon principles to help guide energy investment strategy is vital to our nation's energy and economic future," said Michael G. Morris, Chairman, President and Chief Executive Officer of American Electric Power. "Recognizing that energy efficiency, renewables, cleaner fossil technologies and other diverse solutions all have significant roles in addressing climate challenges while maintaining economic and energy security establishes a framework for making the best decisions regarding our nation's energy future."

CMS Energy, Jackson, MI
"The electric companies that serve America's families and businesses every day understand the need for a balanced approach to meet our country's energy needs. At CMS Energy, our objective is to provide reliable and affordable power to our customers through a prudent, environmentally responsible mix of conventional and advanced technologies that includes renewable energy and to work with customers to help them use energy efficiently. By adopting these principles, Wall Street is making an important and creative contribution to the ongoing effort to address climate change and a contribution that will be welcomed by those in the utility sector with similar concerns about the environment."

DTE Energy, Detroit, MI:
"DTE Energy is proud of its history of environmental stewardship and thus we applaud the Carbon Principles approach by leading banks recognizing that a broad range of energy solutions must be considered to address the climate change issue," said Anthony F. Earley Jr., Chairman and Chief Executive Officer of DTE Energy.

NRG Energy, Princeton, NJ:
"To move the needle on global warming, clean energy technologies need to be developed, demonstrated and deployed as quickly as possible," said David Crane, President and Chief Executive Officer of NRG Energy Inc. "Given the capital intensive nature of this challenge, we welcome these carbon principles as a sign that America's leading financial institutions are ready to support a massive increase of investment in clean energy solutions. With the support of both Wall Street and public policymakers in Washington, the American power industry can lead the way in achieving the dramatic GHG reductions that are critical to the health of both our economy and our planet."

Public Service Enterprise Group (PSEG), Newark, NJ:
"The Carbon Principles encourage all stakeholders to recognize that energy efficiency, renewables and new low-carbon power sources are all indispensable to meeting the nation's future energy needs while addressing climate change as one of the foremost policy and environmental issues of our time," said Ralph Izzo, Chairman, President and Chief Executive Officer of PSEG. "PSEG is actively pursuing this overall goal, while recognizing that our efforts must result in a reasonable cost to consumers. We hope that the Principles will contribute to the national consensus that must be reached to deal effectively with these critical issues."

Sempra Energy, San Diego, CA:
"With its mix of energy efficiency, renewable energy and clean conventional generation, the Carbon Principles echo our view that to meet future US energy needs, a balanced portfolio approach must use energy efficiency, renewable energy, and natural gas."

Southern Company, Atlanta, GA:
Southern Company, along with our regulators and other stakeholders, has and will continue to undertake extensive evaluation of all generation resources including nuclear, coal, natural gas, renewables and energy efficiency, to maintain the balanced portfolio necessary to reliably meet our customers' growing electricity needs. We regard bank due diligence as a normal part of our

business and we applaud the banks for seeking input from the electricity industry as they developed the Carbon Principles.

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About Citi:
Citi, the leading global financial services company, has some 200 million customer accounts and does business in more than 100 countries, providing consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Citi's major brand names include Citibank, CitiFinancial, Primerica, Smith Barney, Banamex, and Nikko. Additional information may be found at www.citigroup.com or www.citi.com.

About JPMorgan Chase:
JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of $1.6 trillion and operations in more than 50 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients under its JPMorgan and Chase brands. Information about the firm is available at www.jpmorganchase.com.

About Morgan Stanley:
Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, investment management and wealth management services. The Firm's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 600 offices in 33 countries. For further information about Morgan Stanley, please visit www.morganstanley.com.

About Sustainable Finance
Sustainable Finance Limited, established in 2003, provides a range of products and services to assist financial institutions in minimizing the risks and maximizing the rapidly evolving opportunities associated with sustainability. Sustainable Finance consults with leading global financial institutions in debt and equity markets, and in developed and emerging economies. It services four areas: Strategy and Policy Development, Capacity-Building and Training, Management Systems, Transaction Review and Value Creation.

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