

Carbon Principles Q & A

1. What is the purpose of the Carbon Principles?

The purpose of the Carbon Principles is to help financial institutions and their power generation clients better understand and respond to the risks of carbon exposure and climate change and to encourage development of low carbon emitting power generation solutions.

2. What impact are the Carbon Principles expected to have? Will the Carbon Principles slow down or stop the development of coal-fired power plants?

The Carbon Principles financial institutions and advisors expect that the Principles will help more clearly define carbon and climate change risk associated with these projects and utilize the full range of economically viable options available to mitigate those risks, including efficiency, renewables and carbon capture and storage.

3. Who are the Carbon Principles adopters and advisors?

The Carbon Principles adopters are financial institutions with significant experience as lenders and underwriters to the U.S. power industry. Advisors are power sector clients and environmental stakeholders. We expect to close the first round of financial institutions adopting the Carbon Principles by early summer 2008.

4. How will the Carbon Principles be implemented?

The Carbon Principles are accompanied by a due diligence framework that outlines and provides an extensive set of questions to help clients and financiers assess risk and mitigation options. Each adopting financial institution will integrate the diligence framework into their existing processes as appropriate.

5. The Carbon Principles call for a balanced portfolio approach with priority given to the lowest-emitting sources of energy (efficiency, renewables, mitigated fossil). What distribution of investment across these three areas do you anticipate?

The Carbon Principles financial institutions expect a continuous trend towards lower-emitting sources of power generation. Development of technological solutions and relative prices of different types of energy sources will determine the evolving distribution across these and future sources.

6. Will the Carbon Principles financial institutions continue to finance coal fired plants?

Coal provides for over 50% of electricity in the United States and comparable portions in other markets around the world. It is the expectation of the adopting financial institutions that coal will continue to be a part of the energy mix and that the Carbon Principles will help financiers to understand and mitigate the risks associated with coal and other GHG-intensive fuels, and pursue the most affordable, reliable and low-carbon portfolio approach to meeting energy needs.

7. What is the group's view on nuclear power?

The group believes nuclear power is an important option to consider in addressing climate change, while also recognizing that nuclear plants carry other risks that financial institutions must consider.

8. Do the Carbon Principles imply a lack of appropriate legislation in the United States?

We recognize the complex process by which legislation is developing in the United States, as well as the contribution to this effort of the various state and regional initiatives. We believe it is important to provide a framework for clients and financiers in this interim period while legislation is being crafted and that the experience derived from the Principles could also help inform the development of new and revised policy.

9. Do the Carbon Principles financial institutions support regulation of carbon?

The Carbon Principles financial institutions have stated their support for market-based frameworks to help regulate carbon emissions.

10. Are you confident that the Carbon Principles will help inform the development of legislation? At the level of Public Utility Commissions?

We believe the learnings from the development of the Carbon Principles and their implementation could be helpful to policy makers, including public utility commissions, as they develop standards and in some cases legislation to help reduce carbon emissions.

11. Why are the Carbon Principles limited to North America power generation?

As a first step, we decided to focus on power generation in North America because of attention to this market by legislators and other stakeholders.

12. Are you concerned about similar risks in other markets?

We recognize that climate risks are present in all greenhouse gas intensive sectors, and believe experience with the Carbon Principles will inform us on how to proceed in other sectors.

13. Will the Carbon Principles expand to other geographic and sectoral markets?

Experience with the Carbon Principles will help inform decisions to consider other geographies and sectors.

14. Are there plans to extend the Carbon Principles to additional, related initiatives?

Through the process of developing the Carbon Principles, the adopting financial institutions identified a number of key issues and questions that merit further consideration. We look forward to further discussions to advance these issues.