



## **CARBON PRINCIPLES STATEMENT OF INTENT**

For several years we (the Carbon Principles banks) have worked with leading power industry clients to explore financings for new generation in the United States against a backdrop of growing uncertainty around federal climate change policy and potential carbon costs. This lack of clarity has raised concerns in the industry around the economic viability of proposed coal-fired power plants, leading to a growing number of regulatory rejections of new projects. From our perspective as financial institutions, there is a clear need for a consistent approach to assessing these uncertainties. In particular, an approach is needed that will give the regulatory, environmental and investment communities a higher degree of confidence that a wide range of carbon related risks will be analyzed and incorporated in the financial commitments of leading banks around proposed coal-fired power plants.

In early 2007 we met with several leading power companies and environmental groups to explore whether we could develop an objective framework to better assess the risks and opportunities around future carbon policy in the United States and the potential impact of these risks on our financial support of new coal-fired plants. Over the remainder of 2007, this collaborative effort resulted in the Carbon Principles and their accompanying Enhanced Diligence Process.

The Carbon Principles and Enhance Diligence Process provide a framework for discussion with our clients that is intended to better inform our financing decisions as lenders and underwriters to the industry. The framework does not set new rules or compliance standards. The Carbon Principles advance a belief that the United States needs a balanced approach to meet our future electric power needs while addressing climate change and carbon cost risks. This balanced approach includes energy efficiency and renewables as important options along with advanced and conventional generation. The Carbon Principles are intended to preserve the range of investment options open to power companies, including coal-fired power plants. However, in the case of certain plants, we as lenders and underwriters will follow an Enhanced Diligence Process. The Enhanced Diligence Process looks at the carbon related risks of the selected supply option and promotes a discussion around a company's energy efficiency and renewable efforts. The Enhanced Diligence Process does not pre-suppose an outcome, judge a company's supply choice, or mandate specific carbon price hurdles, policy assumptions, or technology choices. Each financial institution will make its own diligence judgments on any financing in which the Enhanced Diligence Process is a part.

At present, the Carbon Principles and Enhanced Diligence Process apply only to financings for investor-owned entities. However, we believe this process to be a "best practice" for public power entities, including, municipally-owned utilities, joint action agencies, state public power utilities and rural electric cooperatives, given that many if not all the same climate-related risks pertain to generation projects financed by these entities. Therefore we will encourage these



entities to begin to incorporate the Enhanced Diligence framework into their own development and planning procedures. Within six months of adopting the Principles, we will work with these entities and environmental stakeholders to determine the appropriate enhanced diligence process for public power investments.

We believe that by adopting the Carbon Principles and the Enhanced Diligence Process, financial institutions can expand the range of investment decisions open to their clients by engaging in an objective and responsible diligence process, evaluating carbon intensive investments and lower carbon alternatives within a broader, balanced portfolio approach. The fact that the development of the Carbon Principles and the Enhanced Diligence Process was supported and informed by both leading environmental groups and many of the largest coal-based power companies in the U.S. is a testament to our goal to be fair and reasonable in how we assess carbon risks.