



# THE ADMINISTRATIVE WATCH

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## Climate Change “Carbon Principles” Issued by Major Banks for Construction of Electric Power Plants in U.S.

Three leading Wall Street banks Citibank, JP Morgan Chase, and Morgan Stanley announced new lending principles on February 4<sup>th</sup>, called the “Carbon Principles,” for the evaluation and assessment of climate change risks associated with the financing of electric power projects in the U.S. The Principles were developed in consultation with major electric power companies, including American Electric Power, Southern Company, CMS Energy, DTE Energy, NRG Energy, PSEG, Sempra, as well as non-governmental environmental groups, and are designed to guide lending decisions for electric power projects, given the significant current uncertainty over state, regional, and national climate change policy.

The Principles are comprised of three elements: energy efficiency; renewable and low carbon distributed energy technologies; and conventional and advanced generation. Under energy efficiency, the banks will advocate the pursuit of energy demand reduction projects by their clients and encourage regulators to remove barriers to energy efficiency investments. The second element is designed to encourage companies to consider the full-spectrum of generation technologies and where appropriate, select cost-effective renewable and distributed generation technologies in lieu of fossil-fired generation. Finally, the banks plan to conduct enhanced due diligence to fully assess and evaluate climate change risks associated with conventional fossil projects, while also encouraging the adoption of carbon capture and storage to reduce carbon emissions from the energy sector.

Adoption of the Principles reflects increasing interest by industry, and lenders in particular, in assessing climate change investment risks for capital intensive projects, which often have a 50 year plus operational lifespan. This interest will likely be heightened by Congress’ recent passage of legislation requiring U.S. EPA to develop a mandatory national program for U.S. companies to begin reporting their greenhouse gas emissions by mid-2009. Congress continues to debate comprehensive national climate change legislation, including the Lieberman-Warner bill, as do several states. Meanwhile, U.S. EPA continues to address the fall-out from the Supreme Court’s landmark climate change decision in Massachusetts et al. v. EPA (April 2007) and the agency’s recent denial of California’s petition under the Clean Air Act for more stringent greenhouse gas requirements for cars and trucks.

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