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Carbon Markets: Managing Risks and Identifying Opportunities

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Some Background...

- Waxman Markey HR2454 – Passed June, 2009
- Kerry Boxer S. 1733 – Introduced September 30, 2010
- Other proposals including from Senators Alexander and Webb, Cantwell and Collins, and Stabenow
- Various state and regional level schemes under way
- Kerry & Lieberman introduced the American Power Act on May 12, 2010
 - Cap & Trade for Electric power beginning in 2013, other industries phased in by 2016
 - Carbon fee for transportation fuels beginning in 2013
 - Incentives for nuclear power, offshore drilling, carbon capture and sequestration

Other Regulatory Drivers

- The EPA Mandatory Greenhouse Gas Reporting Rule became effective 2010, with the first reports due by March, 2011
 - Documentation, controls and administrative requirements
 - Self-certification
- On February 2, 2010, the SEC issued an interpretive release (17 CFR Parts 211, 231, 241) which outlines the Commission's views on applying existing disclosure rules to climate change matters
 - Includes commentary on adaptation risk
- The EPA issued its final "Tailoring Rule" on May 13, 2010
 - Phases in industries in 2011
 - Thresholds of 100,000 tons for new sources, 75,000 for modifications

Reporting and Governance Considerations:

- Who is responsible for monitoring regulatory / legislative requirements?
 - Scenario analysis / planning (e.g., Status Quo, Cap & Trade, Cap & Dividend, Carbon Tax)
 - Enterprise view and position on the issues; consistency of your message from external communications through to operations (connect the silos)
 - Clear and consistent governance, organization, roles & responsibilities
 - Policy and process documentation
- Who is responsible for reporting GHG emissions?
 - Facility / Business Unit level vs. Corporate
 - Multiple jurisdictions, formats; mandatory vs. voluntary reporting
 - What is the role of Internal Audit
- What is your company's risk appetite?
 - Transacting for profit vs. compliance
 - Clarity & consistency of policies, authorization
- Do you have a plan for addressing the SEC disclosure requirements?
 - Discussion of risks and opportunities

Data and System Considerations:

- How are you collecting facility-level GHG data and what does it include?
 - Excel? Vendor EMIS systems? Consistency across facilities?
 - All six Kyoto greenhouse gases and all emissions sources
 - System integration vs. data hand-offs
- What data management and control considerations are in place?
 - GHG data may ultimately relate to material financial statement disclosures
 - The EPA GHG Reporting Rule requires documented QA/QC protocols
- Can you support multiple reporting formats / protocols?
 - State, Regional, EPA, International, Voluntary
 - Reconcilable differences across the different reports
- Who is responsible for submitting reports?
 - Centralized vs. de-centralized approaches
 - “Designated Representative” and “Alternate Designated Representative”
 - Self-certification processes and supporting controls
- Consider a reporting “dry run” before year-end

Panel Discussion

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Questions?

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