ICF CONSULTING
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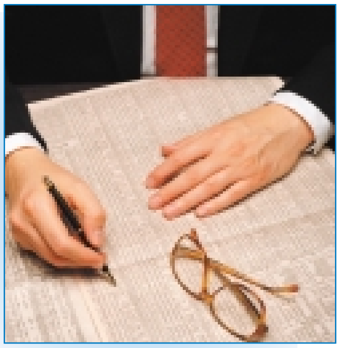
Climate Change Risks: What's in *Your* Portfolio?



During the past few years, publicly owned corporations have come under increasing pressure to provide greater disclosure concerning potential risks they could face as a result of climate change. Just this past May, a group of investors representing more than $4 trillion in assets wrote to hundreds of the world's largest corporations asking them to provide estimates of their greenhouse gas (GHG) emissions; identify on going mitigation actions; and specify their plans to avoid future risks associated with climate change.

Although most firms are still in various stages of developing a strategic response to climate change, many leading corporations already produce annual GHG inventories, and most of those firms have initiated steps to curtail their emissions or procure emission reduction credits by making investments in emission abatement activities. However, many firms find that quantifying the value of assets at risk due to climate change is a daunting task. Difficulties arise frequently in determining the general level of risks and overall quality of a portfolio of emission reduction projects. While individual GHG abatement projects might appear solid on the surface, often the full range of risks associated with these projects is not entirely clear.

A rapidly growing electric power company conferred with ICF Consulting to better understand their risk exposure and quantify the impacts of climate change on the firm's asset values. Part of the risk analysis involved evaluating its portfolio of more than 30 emission reduction projects. Many projects were the result of past mergers and acquisitions and the current environmental managers were uncertain how to quantify the value of the estimated emission benefits.

ICF Consulting used its proprietary analytical tool *GHGPortfolio*™, a rating system based on specific and highly stringent evaluation criteria, to analyze this client's portfolio of projects. The evaluation criteria capture key factors identified internationally as essential to ensuring that GHG emission reduction projects have the greatest probability of generating net environmental benefits. The criteria focus on elements critical to (a) acceptance into voluntary programs, (b) eligibility for early action credit, or (c) creation of marketable emission reduction credits. Among the attributes are baseline determination, direct and indirect emission impacts, monitoring and verification procedures, information management systems, and legal entitlement to emission reduction benefits.

Using *GHGPortfolio*, ICF Consulting rated and ranked all of the client's projects and provided an overall rating for the entire portfolio of GHG abatement projects. The results gave the client a clear indication of the strengths and weaknesses exhibited by its projects. For example, the portfolio contained several renewable energy projects undertaken in partnership with different civic and voluntary groups. Despite the fact that these projects were clearly generating emission reduction benefits, they received relatively low scores. This was due in part to inadequate monitoring, verification, and record-keeping procedures and in part to the fact that the client did not have clear legal entitlement to the emission reductions. Correcting those shortcomings is not only feasible but will significantly increase the value of the company's projects.

The risk management approach used by ICF Consulting enabled identification of several correctable weaknesses across the portfolio. For example, because project activity records were maintained at the facilities where projects originated, data on more than half of the projects were

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difficult to obtain, often inconsistent across similar types of projects, and in a few cases, very outdated. All of these factors suggest the need for a centralized data management system that individual business units could access to provide consistent and timely information.

By bringing analytical rigor to the evaluation of how *real, measurable,* and *quantifiable* GHG emissions reductions might be in a carbon-constrained future, ICF Consulting was able to recommend specific actions the power company could take to enhance the value of its existing portfolio of emission reduction projects. ICF Consulting also provided guidance on opportunities for expanding several activities to cover more of their service area and developed a "checklist" to guide the power company's future investments in GHG mitigation activities.

For more information on ICF Consulting's emission management capabilities, please visit **www.EmissionStrategies.com**