Unlocking Carbon Value.

3 Things to Know about the Carbon Markets

Using the Carbon Markets to Increase the Value of Gas STAR Projects

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Who We Are

*Founders experienced in global carbon markets…*

*Founders*

- Founded by former executives from Climate Change Capital
- Experience developing projects around the world as part of $1B carbon fund
- Offices in Washington, Austin and Denver

*Investors*

...with financial backing from leading institutional investors

What We Do

Verdeo provides project development and technology solutions that help US natural gas companies profit from the value that emerging carbon markets place on emission reduction projects
The US Carbon Market

Voluntary and emerging compliance markets serve as a catalyst for project development

Voluntary carbon markets are alive and trading... ...while the first US mandatory system begins in 2009

US Voluntary Systems
(Volume traded in $MM)

<table>
<thead>
<tr>
<th></th>
<th>OTC</th>
<th>CCX</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$59</td>
<td>$38</td>
</tr>
<tr>
<td>2007</td>
<td>$258</td>
<td>$74</td>
</tr>
</tbody>
</table>

US Mandatory Systems

<table>
<thead>
<tr>
<th>Name</th>
<th>Geographic Region</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Greenhouse Gas Initiative (RGGI)</td>
<td>CN, DE, ME, MD, NH, NJ, NY, VT, NH</td>
<td>Jan 2009</td>
</tr>
<tr>
<td>Western Climate Initiative (WCI)</td>
<td>AZ, CA, CO, NW, OR, UT, WA plus BC, Manitoba and Quebec</td>
<td>TBD</td>
</tr>
<tr>
<td>Midwest Regional GHG Accord</td>
<td>IL, IA, KS, MI, MN, WI, Manitoba</td>
<td>TBD</td>
</tr>
<tr>
<td>State of California</td>
<td>CA</td>
<td>2011</td>
</tr>
<tr>
<td>Federal cap &amp; trade system</td>
<td>US</td>
<td>2012 (est.)</td>
</tr>
</tbody>
</table>

Note: OTC = Over The Counter, CCX = Chicago Climate Exchange
Demand and Pricing

Three distinct market segments...

<table>
<thead>
<tr>
<th>Customer Segments</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary</td>
<td>Google, News Corp., Offset Retailers</td>
</tr>
<tr>
<td>Pre-Compliance</td>
<td>Utilities, IPPs</td>
</tr>
<tr>
<td>Financial</td>
<td>Carbon/hedge funds; Commodity traders/banks</td>
</tr>
</tbody>
</table>

Indicates program has approved oil/gas sector projects

...with prices influenced by demand and quality

Carbon Prices (USD)
(October 2008)

Alberta will likely accept oil/gas sector credits in 2009; very limited trading currently

Voluntary Credits
Compliance Credits
1. Carbon Credits Have Real Value

Carbon credit value can materially impact project economics

In the US, carbon already represents an additional 50% of value per MCF

At current global carbon prices, carbon value significantly greater than gas value

Proposed "safety valves"

US voluntary markets

EU compliance markets

Carbon Value as a Percentage of Gas Value
(Price of Gas held constant at $7/MCF)
2. Carbon Credits Are Built, Not Born

Creating a tradable/bankable carbon credit requires careful planning/execution

Start
Methane Reduction Opportunity

Additionality Argument
Methodology Selection/Creation
Baseline Determination
Project Documentation
Third-Party Validation

Project Implementation
Data Management
Ongoing Monitoring
Annual Verification
Certification/Registration

Finish
Sell Credit or Bank for Regulatory Eligibility
3. No Time Like the Present

Significant benefits from incorporating carbon into Gas STAR projects

1. Don’t Leave Value on Table
   Why not capture carbon value for Gas STAR projects under consideration?

2. High Option Value
   Verified reductions can have value as offsets (if unregulated) or as early action credits (if regulated)

3. Corporate Readiness
   Build internal capacity to engage carbon markets to advance emission reduction objectives

4. Reduce Internal Emissions
   Early action to reduce methane emissions reduces the cost of compliance if operations capped in future legislation

Self-Reporting Insufficient

The voluntary reporting of emissions reductions to EPA via Gas STAR does not guarantee that those reductions will receive any early action credit under future carbon regulation nor does it meet the marketplace criteria required for the sale of carbon offsets.
Conclusions

*Carbon is a valuable catalyst for maximizing value from methane assets*

- **Deploy existing technologies** - Proven, existing technologies can be deployed to mitigate methane emissions and generate carbon offset credits.

- **Generate new stream of revenue** - If properly designed, projects that reduce methane emissions can create a multi-year revenue stream from carbon credits and/or gas production.

- **Position to benefit from federal regulations** – A well-executed project will position reductions to achieve value in a variety of regulatory scenarios.

- **Standards Matter** – Projects that pursue the highest quality standards command a price premium and increase likelihood of acceptance for early action in a future compliance regime.
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