

NAFTA Region Regulatory/Compliance Challenges

Carbon Reduction Strategies

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- FCA US focus on NAFTA region regulatory compliance.
- Key challenge will be the alignment of corporate energy strategy with unique governmental greenhouse gas policies throughout the region.



EHS

“This increase in human-generated CO₂ emissions has led many governments to implement control and regulatory measures to limit the resulting effects.

FCA is addressing this challenge responsibly. The Group believes that effective, long-lasting results to address climate change can only be achieved through an integrated approach involving energy producers, manufacturers (including suppliers), consumers, academia, the financial community and government. The Company is committed to adopting and developing solutions that are at the same time safe, environmentally-friendly and economically viable. These solutions aim to fight climate change, preserve resources and safeguard health.”

Mexico Energy Policy Reforms

Mexican Energy Reforms - Overview and Timing

- Dec. 2013 – Mexican Congress approved energy reforms (electricity, oil, gas)
- Main reform objectives – Achieve a competitive / efficient energy sector with new technologies and expertise to accelerate production and support growth
- For electricity, the transmission and distribution will remain with Comisión Federal de Electricidad (CFE), gov't agency who has been the primary producer / supplier
 - However, the industry will be reorganized to allow private investment to participate in the production / sale of electricity
- Secondary laws allowing for enactment of law and outlining of policies and procedures were approved in August 2014
- Post-reform energy market timeline:



Electric Power Industry

- The secondary legislation is the result of the constitutional reform published in December 2013 and sets the rules and regulations to be implemented.
- Transmission and distribution of electricity remains an activity reserved only for the State. Production and sale of electricity will be open to private investment.
- The CFE will no longer be the only electric power commercializing company, incentivizing competition. A Wholesale Electric Market will be created to buy energy from private generators or CFE at competitive prices.
- New legislation establishes two kinds of users of the electric supply:
 - Basic users - Includes households and small industries. CFE will provide the supply, acquiring the energy through auctions.
 - Qualified users - Includes those users of high consumption which could buy energy directly from the Wholesale Electric Market. The prices would be freely negotiated in the market.

Obligations contained in the new law

- The secondary legislation establishes commitments and obligations to the general electrical market and to the qualified users, such as:
 - The commitment to introduce mechanisms to promote the development of green energy projects to reduce the polluting effects in the generation of electricity
 - The promotion of the sustainable development of the general industry
 - The law establish the obligation from the regulatory entities to create a mechanism to generate carbon credits
 - The purpose of such provisions is to reduce the greenhouse gas emissions by up to the 30% in 2020 according to the strategy called: “national climate change strategy” in Mexico
 - Clean Energy Certificates; the Ministry of Energy determined as 5 % of energy that must be produced and consumed from clean sources by year 2018.
- The Energy Regulatory Commission (CRE) can determine as mandatory the condition of “qualified user” for big consumers, and impose fines for noncompliance. If any large consumer wants to quit the condition of “qualified user” it will take 3 years to authorize and the consumer may not return to the category again for 3 years

General Law on Climate Change

- Mexico passed the General Law on Climate Change on April 19, 2012 in order to address climate change. Under its main purposes is to fulfill international commitments, set emission reduction and renewable energy goals, and regulate greenhouse gas and compounds emissions.

The Registry of Emissions

- The Registry of Emissions will facilitate transparency and accountability regarding greenhouse gas emissions. This mechanism will record all stationary and mobile sources of emissions that are identified as subject to report.
- The Registry of Emissions defined that organizations that exceed 25,000 tons of Carbon Dioxide equivalent (CO_2e) are required to disclose a greenhouse gas inventory. Particularly for the automotive industry, following greenhouse gases should be reported: Carbon Dioxide (CO_2) Nitrogen Dioxide (NO_2) and Methane (CH_4).
- This mechanism is expected to be fully functional in 2015 with verification every 3 years

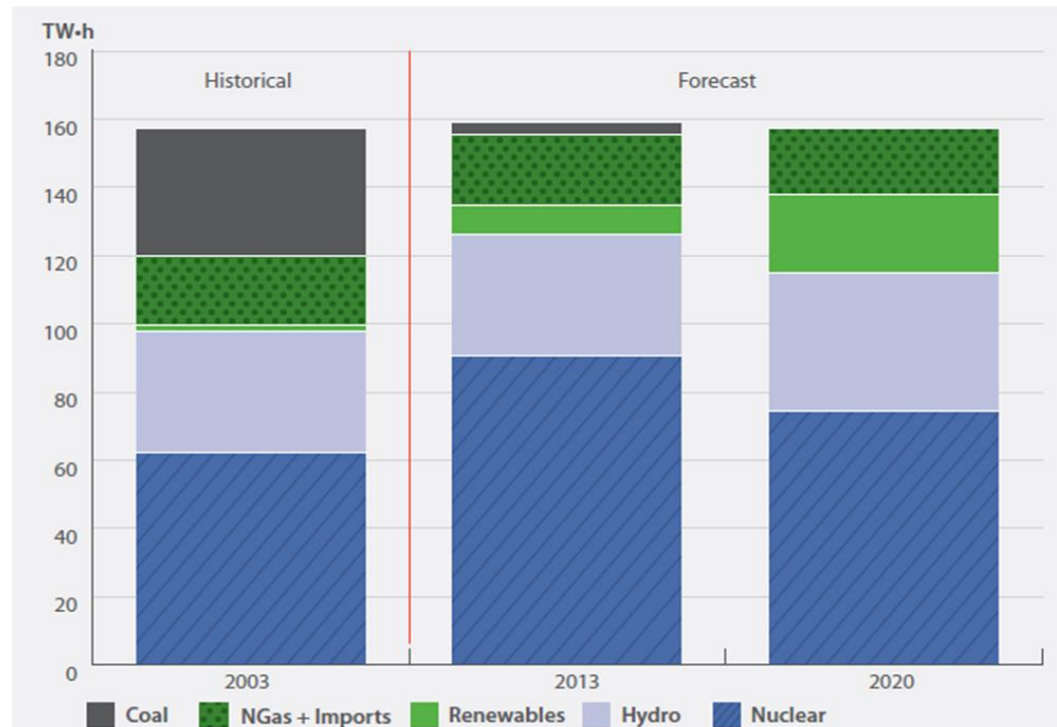


Ontario Cap and Trade System

Ontario's Climate Change Update 2014 – Targets

- 2014: 6% below 1990 levels
- 2020: 15% below 1990 levels
- 2050: 80% below 1990 levels

FIGURE 16 Ontario's Electricity Production by Source



Sources: Ontario's Long-Term Energy Plan: Building Our Clean Energy Future (2010);
Achieving Balance: Ontario's Long-Term Energy Plan data (2013)

Ontario's Climate Change Discussion Paper 2015

FIGURE 1 Ontario's GHG emissions trajectory "wedges"²⁸

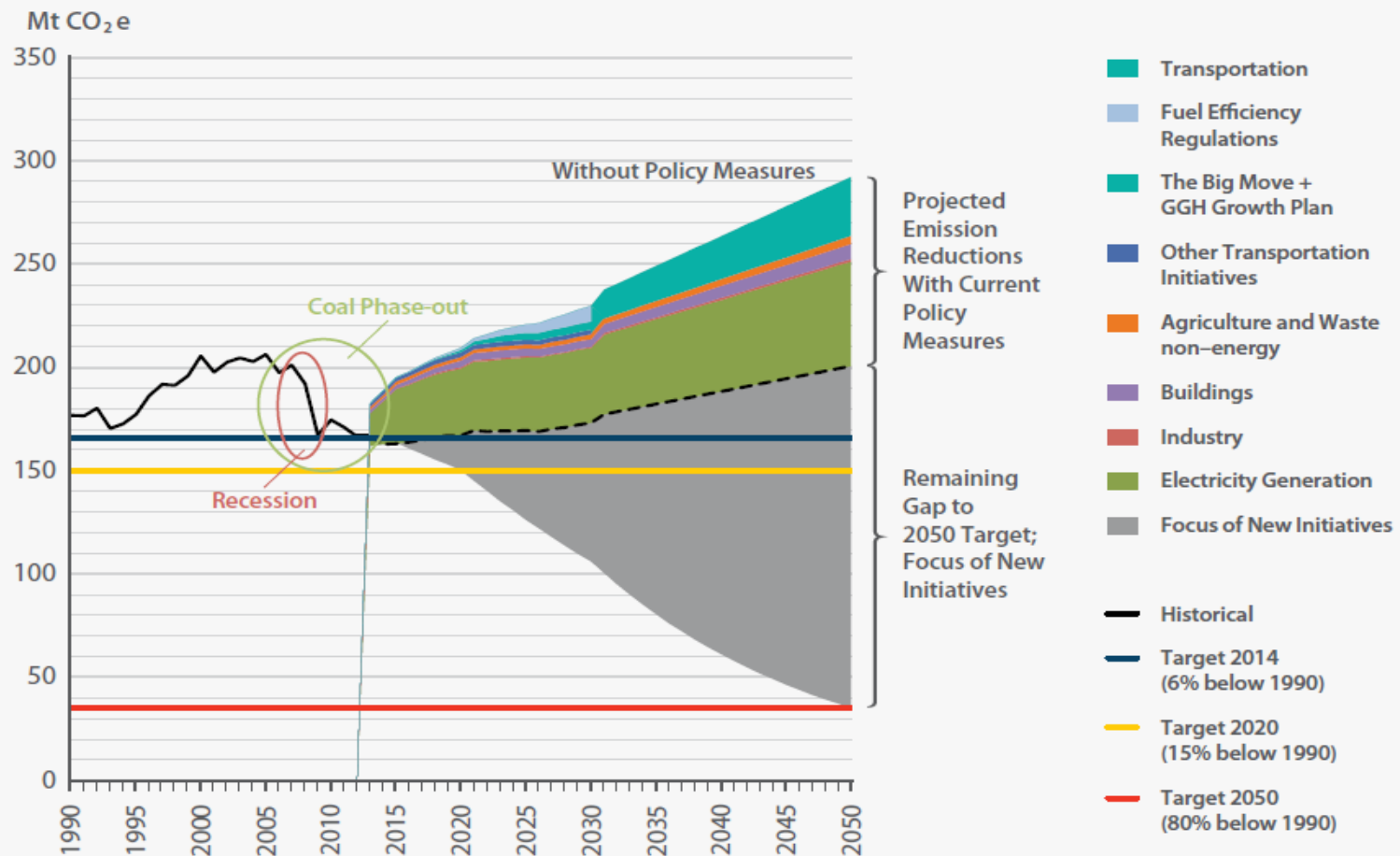
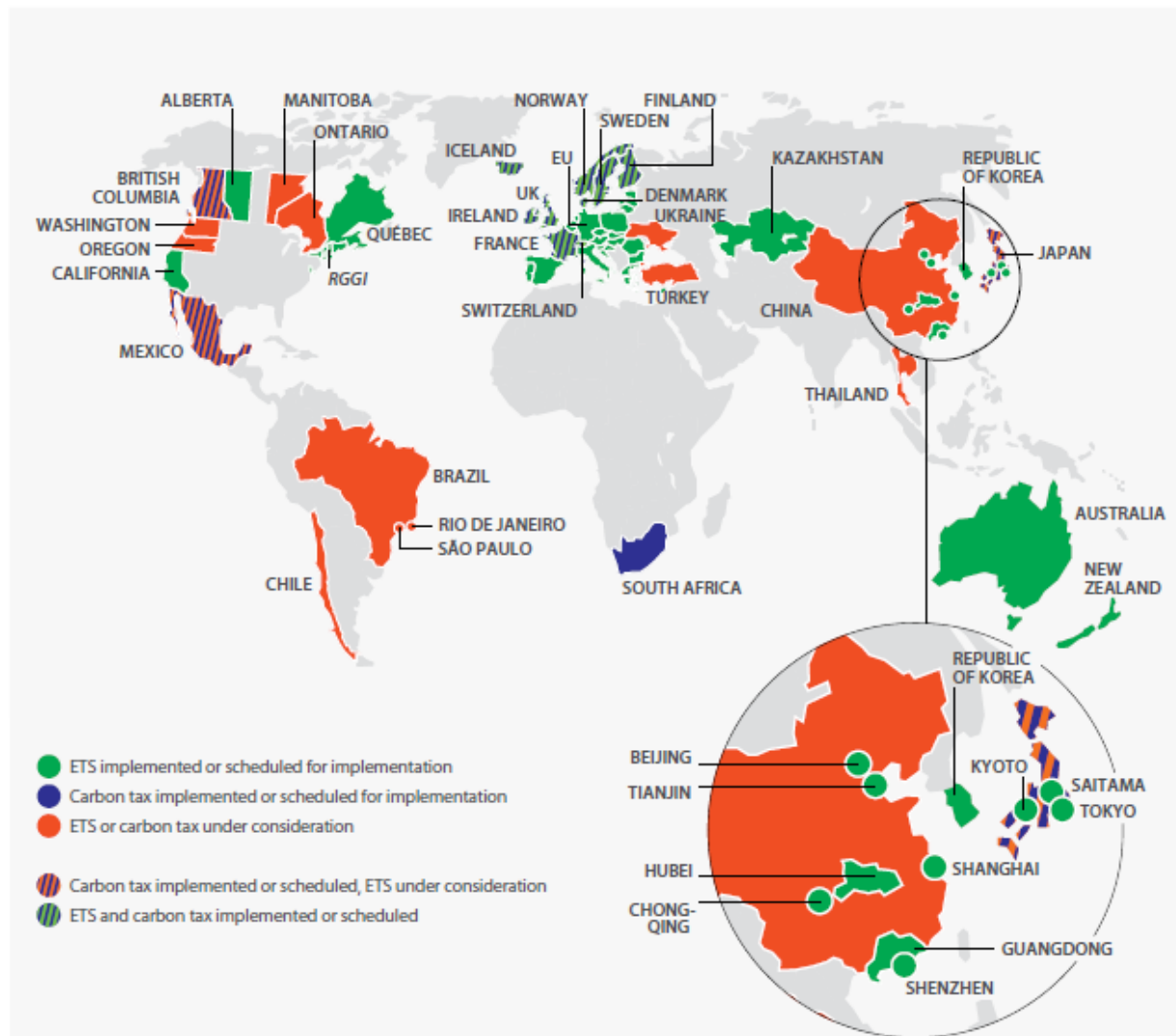


FIGURE 2 Carbon Pricing Systems ³¹

(ETS = Emissions Trading System)



4. Price on Carbon

- This spring Ontario will confirm the market mechanism or mechanisms that will be used to price carbon in Ontario. Some of the goals of carbon pricing include:
 - ī ensuring greenhouse gas emissions *reduction certainty*;
 - ī supporting and encouraging *innovation* in industry;
 - ī improving human, social, financial, produced and natural capital *productivity*; and to
 - ī supporting households and business *transition* to the low carbon economy.

“Ontario is joining other jurisdictions, including Quebec and California, by imposing a hard ceiling on the pollution allowed in each sector of the economy. Known as Cap and Trade, this system effectively reduces the amount of greenhouse gas pollution in our atmosphere by setting a limit on emissions...”

“Ontario intends to join the Cap and Trade system under the Western Climate Initiative. Under the Cap and Trade system, businesses will have their own greenhouse gas quota and will then be able to sell it if they don’t need it because of their own efficiency.”

- *Ministry of Environment and Climate Change currently conducting economic analysis.*
- *Threshold of 25,000 tons of Carbon Dioxide equivalent (CO₂e) to have specific targets.*
- *Regulation to become effective in 2017.*
- *Anticipated 2 to 3% annual reduction requirement anticipated.*