

Winslow Environmental News

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FEATURED COMPANY

FirstGroup: Mass Green Transit

BY ELLEN PFEIFER

If you've ever been stuck behind a bus in traffic or walked past one idling at curbside, the words "environmentally friendly" are probably



not the first that come to mind as you breathe the noxious exhaust fumes. But now the world's largest passenger transport company has committed to making buses – as well as trains – a lot greener.

FirstGroup PLC (LSE:FGP), Britain's largest bus operator, recently acquired Laidlaw International Inc., to become North America's leading operator of school and inter-city bus transportation and the owner of Greyhound. So whether it's red double-deckers in London, yellow school buses in the United States, or Greyhound's fleet of inter-city coaches, FirstGroup intends to

Please see *FIRSTGROUP* page 4



Riding the Green Wave

BY ELIZABETH R LEVY

HOP IN THE CAR, TURN THE KEY AND HIT THE GAS. IN THE REARVIEW MIRROR, SEE THE EXHAUST PLUME BELCH FROM THE TAILPIPE—AN OBVIOUS CAUSE AND EFFECT. FOR MANY PEOPLE, DRIVING – AND TRANSPORTATION, BROADLY – MIGHT BE THE ACTIVITY WITH THE MOST VISIBLE AND EASILY UNDERSTOOD ENVIRONMENTAL CONSEQUENCES. THAT WHITE VAPOR TRAILING FROM AN AUTOMOBILE, BUS, TRAIN OR PLANE ENGINE CONSISTS MOSTLY OF CARBON DIOXIDE (CO₂), THE MOST PREVALENT GREENHOUSE GAS (GHG) IN THE EARTH'S ATMOSPHERE.

Transportation is a very large contributor to the U.S.'s climate burden; if society is to combat climate change caused by GHGs, it will need to tackle transportation emissions as one of the first steps.

Scope of the Problem

How much impact does transportation have on climate change? In 2005, transportation was the biggest climate culprit in the U.S., responsible for 33% of CO₂ emissions from fossil fuel combustion according to the EPA's 2007 *Inventory of U.S.*

Greenhouse Gas Emissions and Sinks: 1990-2005.

Within the transportation sector, passenger cars and light duty trucks (SUVs) were by far the worst environmental offenders, contributing a combined 62% of all transportation GHG emissions, split fairly equally between cars (53% of the category's emissions) and trucks (47%).

Two main factors are responsible for the volume of automotive emissions in the U.S. First,

Please see *GREEN WAVE* page 7

MARKETBEAT PAGE 2

Driving Transparency

What disclosure of carbon data may say about a company's stock value



PORTFOLIO UPDATE PAGE 6

Geo-Thermal Heats Up at WFI Industries

Agreement with Corix Utilities expands capabilities



A MESSAGE FROM WINSLOW'S PORTFOLIO MANAGERS REGARDING ONGOING MARKET CONDITIONS

Over the past several quarters, we have all witnessed the market backlash brought on by excessive residential mortgage lending to unqualified borrowers. Subprime mortgage specialists were the first to suffer, but more recently, larger financial institutions have also experienced major problems.

The result has been a broad crisis in confidence for financial markets in general, and specifically for credit markets. Stock prices have fallen across the board, and the stocks of high-growth companies have been hit particularly hard.

We believe that our portfolios are invested in companies that will avoid significant fundamental damage from the credit crisis; we do not own any financial services firms, and most of our portfolio companies carry little or no debt on their balance sheets. In fact, we are invested exactly where we want to be — in the leaders and innovators within the growing global markets for green solutions. We still believe, very strongly, that green industries such as solar and wind power, green building products and organic foods, among others, will experience explosive growth over the next decade, and nothing about recent market conditions has changed that belief. It is what guides and shapes our investment decisions today, and we hope that it will guide and shape the investment decisions of our readers as they manage their own portfolios in the years to come.

DRIVING TRANSPARENCY

BY JACKSON W. ROBINSON

Within the business community, many leaders agree that climate change is real and important, but are uncertain of what to do about it. They would be wise to return to the old business school maxim, “you can’t manage what you don’t measure.” This is especially true with regards to climate change, given the uncertainty about how regulations to deal with climate change will be written. As we have previously described in the pages of *Winslow Environmental News*, savvy institutional investors want to know both what is being measured, and how it is being managed.

Curious Consumers

Investors aren’t the only ones who are curious about what companies are doing about climate change. One recent morning, I was greeted by a headline on the top of my yogurt cup proclaiming, “Your next purchase could change the world... Make a difference by supporting companies that take climate change seriously — and avoiding those that don’t... Find out companies’ rankings at ClimateCounts.org.”

Curious, I discovered that ClimateCounts.org is a consumer-oriented non-profit organization that ranks companies based on the measurement, disclosure and reduction of their carbon footprint, funded by Stonyfield Yogurt in partnership with the non-profit Clean Air-Cool Planet. Some quick research on the site left me encouraged to see the likes of Nike, IBM and P&G at the top of their peer groups, but will make me think twice about doing business with Apple, Amazon or Levi Strauss, each of which scored miserably.

Buyer Beware

Institutional investors have a similar resource at their disposal — the Carbon Disclosure Project (CDP). The largest data repository of corporate greenhouse gas emissions in the world, the CDP compiles information about what information about their carbon footprint global corporations are measuring, and how they are managing it. On behalf of institutional investors with combined assets under management of \$47 trillion, including

Winslow, the CDP annually seeks climate change data from the world’s 3,000 largest companies, essentially asking them, “what is your carbon footprint and what is your plan to reduce it?”

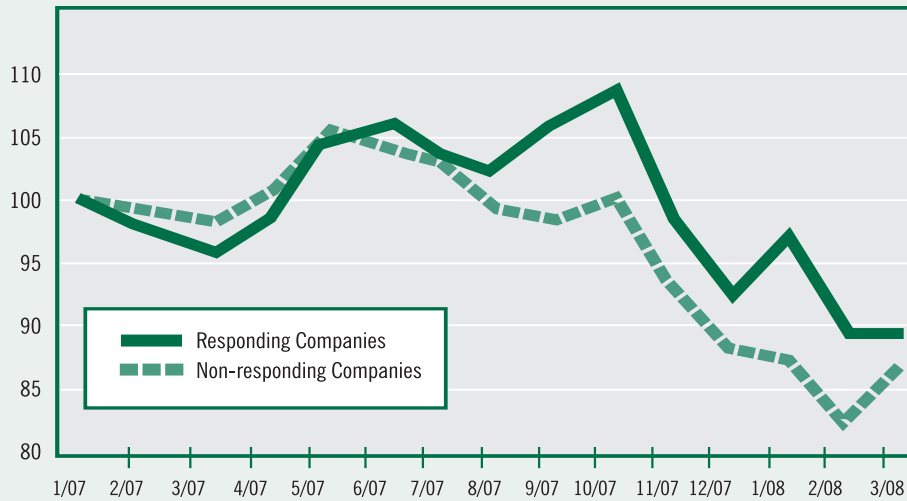
Providing transparency into how corporations are managing their climate change impact, CDP gives stakeholders a tool to analyze companies using information that management may not have

thought anyone would care about. We believe shareholders will be the primary beneficiaries of the new and long overdue carbon transparency.

As an example of how this information can be used, let us briefly take a look at the transportation sector, the theme of this edition of *WEN*. As discussed in our other articles, the climate impacts from transportation are significant, but companies such as First Group are addressing the issue in a thoughtful manner. While not every transportation-related company has a climate strategy, many of them are beginning to develop the data, tools and systems they will need to manage their climate impacts. Most people now expect that American climate regulations are coming. Some companies

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Performance of U.S. Transportation Companies that Did and Did Not Respond to the CDP-5



The indices representing companies that did and did not respond to the CDP were created in February 2008, based on responses available from the Carbon Disclosure Project at www.CDProject.net. They are both equal-weighted indices and do not represent actual trading in a client or proprietary account. Returns for the indices were calculated monthly, assume reinvestment of dividends and, unlike an investment in a mutual fund or other account, do not reflect any fees, charges or expenses. An investor cannot invest directly in any of the indices mentioned. **Past performance is not indicative of future results.**

Responding Companies

Boeing Co.
Burlington Northern Santa Fe Corp.
Continental Airlines Inc.
CH Robinson Worldwide Inc.
Ford Motor Co.
FedEx Corp.
General Electric Co.
General Motors Co.
JB Hunt Transport Services Inc.
UAL Corp.
Union Pacific Corp.
United Parcel Services, Inc.

Non Responding Companies

Alexander & Baldwin Inc.
AMR Corp.
CSX Corp.
Expeditors International of Washington Inc.
Harley-Davidson Inc.
Jetblue Airways Corp.
Kirby Corp.
Southwest Airlines Co.
Norfolk Southern Corp.
PACCAR Inc.
Tidewater Inc.

are preparing for them, taking advantage of this head start to take stock of what their emissions and impacts are and how they will be able to reduce them in the future. And, somewhat predictably, other companies are not.

We hypothesize that transportation companies that are proactively preparing for carbon rules, will perform better relative to companies that choose to wait to react to the rules. To test this, we looked to the fifth CDP questionnaire, sent to companies on February 1, 2007, using response to the CDP as a proxy for carbon rules preparedness. We created two groups of companies to compare, based on their responses posted on CDP's website: U.S. transportation companies that responded to the CDP request, regardless of their answers, and those that did not. Each category includes at least one well-known airline, trucking, and railroad company, as shown. We compared the performance of those two groups between the day the survey was sent out, February 1, 2007, and March 31, 2008. Over that short period, those responding to the survey outperformed the non-responders, by a modest 2.4%,

as shown in the chart.

We were not surprised at these results. Because carbon emissions pose a prominent challenge and risk for the transportation industry, all 23 companies surveyed should be well aware of their carbon footprints. Unfortunately, refusing to provide carbon information suggests just the opposite. *Caveat emptor*.

The ongoing rise in greenhouse gas emissions – especially carbon dioxide – fuels climate change. Left unchecked, the consequences will be catastrophic. As awareness of climate change risks rise, they are beginning to drive consumer and investor decisions. Although a growing number of institutions, states and municipalities are now taking actions to reduce greenhouse gas emissions, we need to make larger strides. Not unlike our Clean Air Act of 1990, we need a federal mandate that limits and reduces greenhouse gas emissions, such as the carbon neutrality goal Norway has established for 2050. Carbon transparency shows that companies are aware of their increasing responsibility, and is a good first step towards addressing the challenges ahead. □

The company now boasts revenues of £5 billion a year, staff of 135,000 in the UK and US and more than 2.5 billion passengers a year.

FIRSTGROUP continued from page 1

reduce their carbon dioxide emissions. The company's overall Climate Strategy calls for "reducing carbon dioxide emissions per passenger journey or passenger kilometer," and contains specific goals for the company's British bus and rail divisions.

A Major Player in the Sector

Based in Aberdeen, Scotland and with its American headquarters in Cincinnati, FirstGroup was formed in 1995 from the merger of two pre-existing transit companies, Badgerline Group PLC and GRT Bus Group PLC. The company entered North America in 1999, creating three businesses: First Student, First Transit and First Services operating yellow school buses, transit contracting and management services and vehicle maintenance services, respectively.

In February 2007, the company announced its acquisition of Laidlaw, an American inter-city and school bus services company. The acquisition, which was completed in October 2007, was a bit bumpy, including an anti-trust investigation and settlement. After the acquisition, FirstGroup incorporated Laidlaw Education Services into First Student, and Laidlaw Transit Services into First Transit. Greyhound, also a part of Laidlaw, remains a separate operation.

The company now boasts revenues of £5 billion a year, staff of 135,000 in the U.K. and U.S. and more than 2.5 billion passengers a year. Within Britain, First operates one in five of all local bus services, with a fleet of 9,000 buses serving 3 million passengers a day and more than 40 major towns and cities, as well as regional, intercity and commuter rail services.

Environmental Goals

Given the many variables involved, going green (or greener) is an exceedingly challenging quest for a transportation company. FirstGroup, however, is undaunted. In its March 2007 Climate Change Strategy, the company emphasizes reducing carbon dioxide emissions as part of an "overall environmental program covering atmospheric emissions, energy, resource use, waste and biodiversity."

FirstGroup's tactics fall into roughly three areas. The first is to attract more customers to public transportation through enhanced service and reliability because "emissions per passenger kilometer are significantly lower for bus and rail travel than for car travel," as described in the main article of this issue.

The second area is to reduce emissions from and increase fuel efficiency of vehicles. Because FirstGroup's numerous fleets have varying owner-

WINSLOW'S CARBON OFFSETS

BY ELIZABETH R LEVY

Several years ago, Winslow decided it was time for us to walk our talk, and decided to offset our corporate emissions. With the help of Terrapass, a leading carbon offset provider, we have broken our emissions-related activities down into three categories: office activities, commuting and business travel, of which we assumed business travel would be our biggest impact.

Terrapass estimated our energy use based on the square footage of space we rent and the mix of fuels generating electricity and heat in our area – oil, coal, natural gas and nuclear in Boston. Terrapass estimated that our office emits about 50 tons of carbon dioxide equivalents (CO₂e) each year. In 2007, our total one-way daily commute for 13 employees included: 28 miles by car, 16 by subway, 20 by train and 13 by bus, for a total of 13 tons of CO₂e. Our business travel last year included: 4600 miles by car, 9700 miles by train and 173,000 miles by plane, generating about 47 tons of CO₂e.

The most surprising thing we learned from this exercise is how much impact our everyday actions have. We had thought that since we mostly walk or take public transportation to work, our emissions from commuting would be negligible – which they're not. The reminder that even taking the subway causes emissions was a good wake up call for us. Similarly, we were also surprised by the magnitude of our office's emissions. It's hard for us to appreciate that smaller actions, such as reducing the amount of time before idle monitors shut off, have real impacts. But seeing that the emissions from our office are slightly larger than our travel emissions, which we had assumed would be our largest impact, has made us think harder about the way we do our everyday business.

ship, age, technologies, ridership, driver awareness, etc., this goal is something of a moving target; however, the tactics specified include:

- Converting the entire U.K. Bus fleet to sulfur-free 5% biodiesel, where supply is available;
- Monitoring and testing hybrid technologies, including a current trial with hybrid-diesel-electric double-decker buses in London;

that, according to company press releases, will be among the greenest of their kind in the U.K. The building will feature “ground source heat pumps and solar panels, movement responsive lighting, rainwater harvesting, recirculation of water used to wash buses,” and adaptive reuse of the existing historic 1862 building as the “focal point of the new development.”



First fuel cell powered bus in London

- Testing hydrogen powered vehicles, including 10 buses purchased in November 2007 by the city of London;
- Training bus and rail drivers in techniques that improve fuel efficiency and minimize engine idling;
- Purchasing new, efficient vehicles with state of the art emissions controls, such as the February 2008 order for 700 fuel efficient buses;
- Improving fuel monitoring in the United States;
- Increasing efficiency of existing U.S. vehicles through effective maintenance, driver training, no idling policies and tire replacement; and
- Converting U.S. school buses to ultra low sulfur diesel.

The third area for improvement is in the company's buildings and operations. In June 2007, the company received permission to develop a new global headquarters and bus depot in Aberdeen

Recognition for Environmental Performance

While the company concedes there is tremendous work to do, its progress to date has been honored within the sector and beyond. At the 2006 Green Apple Awards, First received a gold award in the Transport, Freight and Highways category. It also received the Continuing Environmental Excellence Award at the Network Rail Environment Awards 2006, and was runner up in the National Business Awards for Scotland 2006 in the Scottish Power Environmental Awareness Awards. The company also earned an improved score in the Business in the Community Corporate Responsibility Index 2006.

But beyond the awards, the company has a simple motive for its green focus. “We want to lead as much as we can,” says Chief Executive Moir Lockheed. “We want to help achieve what we all want to see – the reduction of carbon emissions and to stop damaging the environment.” □

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PORTFOLIO UPDATE

WFI Industries, LTD.

(TSX:WFI)

FORT WAYNE, IN – WFI Industries announced in late March that it has entered into a Memorandum of Understanding with Corix Utilities to jointly pursue geothermal utility opportunities in Canada and the United States. Corix has extensive technical and business experience in the area of sustainable energy utility operations for developers, municipal and utility customers; and it has successfully introduced geothermal heating and cooling as a utility offering to large scale developments. Corix is interested in expanding that offering throughout North America.

Bruce Ritchey, President and CEO of WFI Industries, explained, "This business relationship allows both companies to provide affordable renewable energy in the form of geothermal heating and cooling for developers, institutions, municipalities, industrial and commercial businesses. The largest hurdle to adoption of geothermal heating and cooling has been the initial cost of the loop field. This partnership eliminates that hurdle. Corix will install and own the geothermal loop source for the development

and offer the renewable energy to the building owners for a monthly fee. The fee charged will be less than money saved by the geothermal equipment. So, it provides a tremendous savings to the building owner while slashing consumption of fossil fuels and lessening our dependence on foreign energy sources."

World Energy Solutions, Inc. (TSX:XWE)

WORCESTER, MA – In March, World Energy Solutions, Inc. announced that it had been selected by the Regional Greenhouse Gas Initiative (RGGI) to provide services related to the design and implementation of the nation's first regional carbon credit allowance auction. RGGI is a cooperative effort by ten Northeast and Mid-Atlantic States to design and implement a regional cap-and-trade program initially covering carbon dioxide emissions from power plants in the region.

The first CO2 allowance auction for a mandatory emissions reduction program is scheduled to take place in September 2008, followed by a second auction in December 2008. Regional auctions will take place on a quarterly basis, with the first compliance period for the RGGI cap-and-trade program to begin on January 1, 2009.

"World Energy is thrilled to be selected by RGGI as their provider of online auction services. This selection validates both World Energy's capabilities and the value of auctions as an allocation methodology," said

Richard Domaleski, CEO of World Energy Solutions.

In a statement issued by RGGI, Pete Grannis, Chair of RGGI and Commissioner of the New York State Department of Environmental Conservation said, "Absent federal leadership, the Northeast and Mid-Atlantic states of RGGI are taking action to cut greenhouse gas emissions and reduce their impact on the environment. Our CO2 auction will be the first in the nation and it is one that should be replicated at the federal level."

Bankrate, Inc. (Nasdaq: RATE)

NEW YORK, NY – In February, Bankrate announced that it has acquired two companies in separate transactions, InsureMe, Inc. and Lower Fees, Inc.

InsureMe operates a Web site and a network of hundreds of affiliates that offer consumers competitive insurance rates for auto, home, life, health and long term care, making money by selling consumer leads to insurance providers, who in turn provide consumers quotes for a variety of insurance products.

Lower Fees, which operates funddisclosure.com, empowers consumers with comprehensive information on mortgage transaction and closing fees. It was founded in 2005 and has since created an online platform to provide transparency into vendor fees during the mortgage process. The company provides information and rates on a local level for a variety of products including title, inspection escrow, hazard and appraisal fees.

U.S. Geothermal, Inc.

(AMEX:HTM)

BOISE, ID – In February, U.S. Geothermal announced that the Oregon Department of Geology and Mineral Industries issued a drilling permit for the first full size exploration well at the Neal Hot Springs Project, located in eastern Oregon. The new exploration well is permitted for a depth of 3,500 feet and is expected to further develop a geothermal resource discovery made by Chevron Resources in 1979.

"Neal Hot Springs provides an excellent target for us, and is consistent with our corporate focus of reducing risk by taking on projects that have a discovery," said Daniel Kunz, President and CEO. "We anticipate drilling the well during the second quarter of the year; once a drill is contracted and site preparation is complete."

A water supply well to support the drilling operation was completed at the site in December 2007. Construction of the access road, drill pad and test pond is scheduled to commence in March, and it is expected that drilling operations will start before May, depending upon availability of a suitable drill rig. Upon completion of the well, flow testing and reservoir engineering will commence. It is anticipated that temperature and flow results from the well may be available by the end of the second quarter.

The Neal Hot Springs project was selected by Idaho Power Company for negotiation of a 26 megawatt power purchase agreement.

the number of miles we each drive is increasing, growing twice as fast between 1990 and 2003 as population did. Second, the continued popularity of less efficient light-duty trucks has had a real impact on the emissions profile of American passenger vehicles. The average fuel economy of new light duty vehicles (including cars and light trucks) peaked in 1987-1988 at 22.1 miles per gallon (mpg), and has been declining ever since; EPA projected a light vehicle average of 20.2 mpg for 2007.

Passenger vehicles aren't the only culprits, of course; trucks, planes, trains and ships also contribute to transportation's climate footprint. The impact of shipping freight via truck is especially significant. According to EPA, not only did trucks emit 13% more GHG for transporting each mile of each ton of cargo in 2003 compared to 1990, but the share of freight transported via truck has increased 6% during the period.

Solutions

There are two basic solutions to the problem of excessive CO2 emissions from the transportation sector: less transportation and more efficient transportation. Reducing the amount of demand for both personal and cargo transportation may seem unrealistic, but there is much that can be done. Reducing transportation emissions is part of the drive for the increasing popularity of teleconferences and telecommuting, one of the benefits of locally grown food, and the reason that locally produced building materials earn points under the U.S. Green Building Council's LEED certification program.

Passenger cars are already becoming more efficient, as the government has updated the Corporate Average Fuel Economy (CAFE) standards. The standards increase the minimum efficiency level for cars, and now light duty trucks, beginning with the 2008 model year and achieving 35 mpg by 2020.

Mode Switching

Given the choice, what mode of transportation results in the lowest GHG emissions? According to carbon offset-provider Terrapass (see Sidebar, page 4), for a one-way trip between Boston and New York City, for example, a solo passenger in a car getting 20 mpg causes 182 pounds of CO2 emissions; a train passenger 129 pounds; a bus passenger 123 pounds; and a plane passenger 119 pounds.

Several interesting conclusions can be drawn from this analysis. First, any type of mass transportation is more efficient than driving a 20 mpg car, although this analysis did not include transportation to the airport or bus or train station. Second, adding a passenger halves the emissions per person in a car, while having virtually no impacts on each mass transit passenger's emissions. However, the bus, train or plane is going to travel with or without any particular passenger, so any incremental emissions from driving, no matter how efficiently, will add to the total amount of GHGs emitted. Finally, it suggests that flying is the most carbon efficient option. However, there are a few unknowns about the impacts of plane travel, such as the effects of injecting GHGs directly into the atmosphere rather than at ground level, leading Terrapass's Chief Environmental Officer Tom Arnold to conclude that for trips such as this, "When I have to travel, and have a choice, I take the train."

Improving Technologies and Policies

Improvements to current technologies will allow for emissions reductions before new technologies are ready. More efficient, more lightweight and more streamlined designs improve fuel economy and decrease emissions from all vehicles. Hybrid cars, for example, are increasingly serving as a link between current and future technologies.

New technologies, of course, hold even more

Please see GREEN WAVE page 8

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GREEN WAVE continued from page 7

promise for reducing GHG emissions. Electric vehicles are powered by batteries that are externally recharged, potentially by plugging in to the electricity grid, and are moving closer to becoming a mainstream reality. Certainly, significant challenges remain, especially with regards to the battery, but electric cars are increasingly able to achieve the desired range and driveability required to become a large part of the vehicle fleet.

All levels of government are intensely interested in improving the transportation system. Local governments may be particularly concerned with local air quality and quality of life, while national governments may worry about meeting international GHG reduction commitments. Some governments are trying innovative polices, such as London's congestion charge scheme.

Under the current plan, motorists wishing to

drive in the central London congestion zone between 7 AM and 6 PM pay a daily fee of £8, or approximately \$16, with the money being used to improve the city's public transportation facilities.

There is no doubt that transportation will remain the source of a significant amount of CO₂ and other GHGs in the future. However, there are a variety of options to switch from GHG intense modes of transporting people and freight to less intense modes. And there are also currently available technologies that can improve the vehicles on the road, riding the rails and in the air. And while some innovative technologies are under development, many more are still to be invented. Curbing transportation emissions of GHGs is an achievable goal, but will require considerable investment of brainpower and capital. □

This article is excerpted from the Winslow White Paper "Riding the Green Transportation Wave", available at www.winslowgreen.com



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