Three of Wall Street's biggest investment banks are set to announce today that they are imposing new environmental standards that will make it harder for companies to get financing to build coal-fired power plants in the U.S.

Citigroup Inc., J.P. Morgan Chase & Co. and Morgan Stanley say they have concluded that the U.S. government will cap greenhouse-gas emissions from power plants sometime in the next few years. The banks will require utilities seeking financing for plants before then to prove the plants will be economically viable even under potentially stringent federal caps on carbon dioxide, the main man-made greenhouse gas.

The move shows Wall Street is the latest U.S. business sector that sees some kind of government emissions-capping as inevitable. But it shows disagreement about what to do.

The standards, which would apply to all but the smallest plants, result from nine months of negotiations among the three banks and some of the biggest U.S. utilities and environmental groups. The standards could hurt coal-dependent utilities that haven't begun factoring a future price of CO2 emissions into their planning. But they could help utilities that have.

The banks say they don't want to be involved with debt that goes bad as a result of government emissions caps that require the power plants they finance to buy large numbers of extra pollution allowances. Under a cap-and-trade system to limit greenhouse-gas emissions, the government would distribute a certain number of emission allowances each year. Companies whose emissions...
exceeded their allowances would have to buy more from companies that had more than needed. Congress is considering several cap-and-trade proposals.

"We have to wake up some people who are asleep," says Jeffrey Holzschuh, vice chairman of institutional securities at Morgan Stanley.

The banks are likely to continue to finance certain coal-fired power plants: those designed to capture greenhouse-gas emissions and shoot them underground if that technology became practical. But they make it less likely the banks will finance other coal-fired plants. Several dozen are on the drawing board in the U.S., many not yet financed.

The standards follow TXU Corp.'s proposal to build 11 coal-fired power plants in Texas -- a plan it scaled back to three last year. TXU was later taken private by a group led by Kohlberg Kravis Roberts & Co. and TPG, formerly Texas Pacific Group. Citi, J.P. Morgan and Morgan Stanley -- top financiers to the U.S. power industry -- were among the banks that advised the buyers.

The banks are under pressure from environmental groups but say their bigger motive is financial. Most major presidential candidates favor legislation to limit emissions. "What is earth-shakingly different between now and two years ago is the focus on CO2," says Eric Fornell, vice chairman of J.P. Morgan's natural-resources banking division. Several states have begun requiring utilities to account for the potential cost of emissions in new-plant plans.

The banks say they will encourage energy-efficiency and renewable-energy pushes before backing new coal plants. And they say they will help utilities push for new government policies that make efficiency programs and renewable energy more practical.

When utilities apply for financing for coal-fired plants, the banks will use "somewhat conservative" assumptions about future caps, says Hal Clark, co-chairman of Citi's power-sector investment-banking division. The banks say they will consider the possibility that utilities will have to pay for their allowances -- an idea utilities are fighting.

Two environmental groups -- Environmental Defense and the Natural Resources Defense Council -- worked with the banks to develop the standards. Mark Brownstein, an Environmental Defense official, says if utilities have to pay for emission allowances, "the days of conventional coal really are over."
But several utilities that helped draft the standards say they shouldn't have to pay for most of their allowances. Michael Morris, chief executive of American Electric Power Co., says his company believes it should get 90% to 95% free. Most big coal-fired utilities paying for their allowances would drive up their costs and consumers' electric bills.

Some conventional coal-fired plants could pass muster if the utility showed it could raise its rates to cover the higher cost of polluting. "It's still conceivable that conventional coal plants might make the most sense in a specific location in a specific community," J.P. Morgan's Mr. Fornell says.

AEP's Mr. Morris says the new standards clearly make it "more difficult" to build a conventional coal plant. AEP is designing new plants to capture and store CO2 if that technology becomes viable. The Wall Street seal of approval, he says, might help surmount local opposition. "A regulator may find this another reason to go forward" in approving a new coal-fired plant, Mr. Morris says. A spokesman for Southern Co., another big utility that helped draft the standards, says it believes they will stimulate more discussion.

---Rebecca Smith contributed to this article.

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