

Putting a price on emissions

How carbon emissions could affect your bottom line **Interviewed by Matt McClellan**

If you haven't heard the term "carbon accounting," be prepared to become familiar with it. Recent legislation may force companies to account for their greenhouse gas emissions by initiating a cap-and-trade system.

"This is all about taking something that was previously free and associating a price with it," says Lee Barken, IT practice leader at Haskell & White LLP. "The moment you put a price on carbon, it becomes an asset or a liability on the balance sheet. Then, it becomes an area of great importance to the financial and accounting world."

Smart Business spoke with Barken about how carbon accounting can change the way companies do business.



Lee Barken, CPA
IT practice leader
Haskell & White LLP

What is a cap-and-trade system?

The basis of a national cap-and-trade system begins with an inventory of the total carbon dioxide (CO₂) emissions for the country followed by a mandated limit on those emissions. Permits to release CO₂ would then be allocated or auctioned. Companies subject to the cap would either have to lower their emissions or purchase carbon credits in an open marketplace.

How will the cap be set?

On March 10, 2009, the EPA released a mandatory disclosure rule. Under the new rule, any company emitting more than 25,000 metric tons of CO₂ per year will be required to report its emissions to the EPA. These CO₂ emissions will need to be recorded beginning in 2010. It is widely believed that this action will create a baseline for a future cap-and-trade program. That line in the sand, the 25,000 metric tons, accounts for roughly 13,000 facilities across the U.S., representing about 85 to 90 percent of the greenhouse gas emissions for the entire country.

How will these regulations affect businesses?

Climate change legislation will have broad and comprehensive implications for businesses of all sizes. As the cost of carbon is absorbed in the value chain, those costs will be passed along to the end users. New pricing signals will affect shipping costs and influence how you obtain raw materials. Energy footprints in your building inventory will become particular-

ly important. Simply stated, any company that uses electricity or consumes fossil fuels will be affected.

Once you put a price on carbon, you end up with winners and losers. The losers are any businesses with a supply chain that is based on coal or fossil fuels. The winners are any companies that can innovate new ways to reduce carbon emissions.

In addition, new projects such as reforestation/afforestation, landfill methane capture, animal waste anaerobic digestion and renewable energy projects could take advantage of cap and trade to monetize their emission reductions as carbon credits and sell them into the carbon markets.

What are the future implications of climate change legislation, and when will this happen?

When gasoline was selling at \$4 per gallon, people suddenly cared deeply about fuel efficiency. That's the macro effect we're going to see by tying an economic price to carbon emissions. We're going to see things that are carbon-intensive become more expensive and, in turn, that will make alternatives more attractive.

In 2006, California passed sweeping climate legislation introducing mandatory carbon emission limits in the state by 2012. This legislation, the Global Warming Solu-

tions Act of 2006, is more commonly referred to as Assembly Bill 32 (AB32). AB32 mandates a 30 percent statewide emissions reduction by the year 2020.

Further, the United States Congress is currently advancing legislation that will implement emission limits on a national scale. The draft Waxman-Markey bill, known as the American Clean Energy and Security Act of 2009 (ACES), has been approved by the House Energy and Commerce Committee and is currently being debated on the floor of the House of Representatives. Passage through the House and Senate could come as early as year's end.

What can companies do to prepare for the eventual impact of carbon accounting?

Companies should start thinking about a carbon strategy and how this is going to affect their business. The first step is to perform carbon footprinting. That usually flushes out a number of areas of improvement or areas of vulnerability to see where the carbon-intensive activities are taking place. Once a company knows where it needs to improve, it can start laying out a roadmap. The low-lying fruit is often in building operations and maintenance.

The U.S. Green Building Council (www.usgbc.org) has a certification program called LEED — Leadership in Energy and Environmental Design. It's a very detailed, point-based system to let you quantify the 'greenness' of your building and have it certified.

How will carbon-reducing efforts be documented?

If you do take early action, it's really important to document the reductions and register with a voluntary carbon registry. Voluntary registries help ensure that early adopters are not punished for their efforts. For example, let's say your company voluntarily reduces its emissions by 20 percent in advance of anticipated legislation. If a law is later passed, you want to be sure that you get credit for those reductions. After all, we don't want forward-thinking companies to decide to wait and see what happens in the legislative arena and delay actions they could be taking today. <<

LEE BARKEN, CPA, is the IT practice leader at Haskell & White LLP. Reach him at (858) 350-4215 or lbarken@hwcpa.com.

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