

Carbon Management Insights

The importance and business value in being prepared for the new world of public carbon use disclosure and transparency.

“As executives prepare to manage carbon, they must first determine the best way to approach carbon measurement and management. Indeed, before one can reduce carbon output, one must measure it in order to track progress.”

2010 CFERF Holistic Carbon Management Study



Introduction

The strategic impact of carbon use on organizations overall business sustainability is well established, including financial, operational, reputational and competitive risks and challenges. Furthermore, several marketplace events are underway which will place the management of carbon use into the broader operational mainstream of business.

A key factor driving this development is the statutory and regulatory actions taking shape in Canada and the United States, which have the potential to pose a significant impact on the operations of Canadian organizations. Examples of these actions include: 'Cap and Trade' mechanisms included in the US American Clean Energy Act (Waxman-Markey) and the Western Climate Initiative (members include British Columbia, Manitoba,

Ontario and Quebec); and upcoming sustainability reporting requirements by the Ontario Securities Commission.

As regulatory actions develop it is crucial organizations start preparing for tracking and reporting its carbon use. The Chief Financial Officer of organizations will play a key role in the management and compliance of these practices.

This carbon management insight offers insight into the importance and business value in being prepared for the new world of public carbon use disclosure and transparency.



Regulatory compliance levels

To begin with some background - regulatory compliance for carbon management can be divided into two different levels, short and long term compliance.

Short-term Compliance Reporting and Disclosure

- Wider net – More organizations will be directly affected by this type of regulation than physical limits.
- Reporting guidelines – Each legislation may/can have its own specific reporting requirements. Specific reporting requirements may exist depending on geographic location and industry.
- Participation – There will be both mandatory and optional programs and a single data set most likely can be used to support multiple reporting regimes.

Long-term Compliance Active Carbon Management

- Imposed restrictions on emissions – Heavy emitters and critical industries will have actual limits on emissions or emissions intensity.
- Financial impacts – There will be direct costs associated with reducing emissions, penalties for non-compliance, and opportunities in carbon market participation.
- Non-regulated participation – Non-regulated organizations may be able to participate through carbon offset creation.

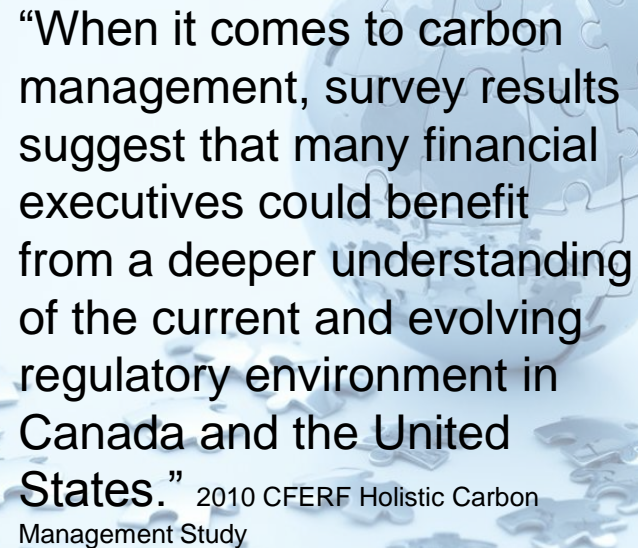


Uncertainty in the marketplace

Today in the marketplace it can be said that there is a general understanding of the current and evolving regulatory environment in North America. However, many organizations are voicing their concerns about government leadership and alignment between regulatory frameworks. In Canada and the United States alone there are multiple regulations developing. Table 1 summarizes these regulations.

Table 1

Canada	United States	Regional
<ul style="list-style-type: none"> • British Columbia Bill • Alberta Cap and Trade • Ontario Legislation • Quebec Legislation • OSC Regulations 	<ul style="list-style-type: none"> • Waxman – Markey “American Clean Energy and Security Act of 2009” • Cantwell – Cap and Dividend 	<ul style="list-style-type: none"> • Western Climate Initiative • Regional Greenhouse Gas Initiative



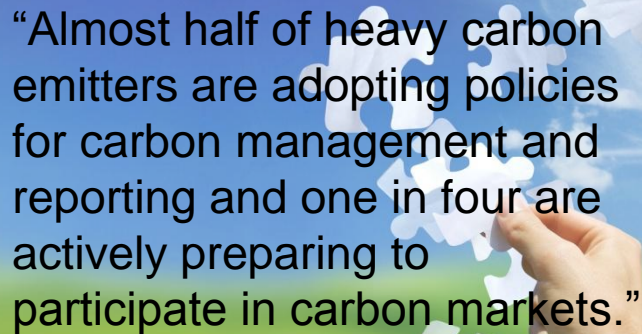
“When it comes to carbon management, survey results suggest that many financial executives could benefit from a deeper understanding of the current and evolving regulatory environment in Canada and the United States.” 2010 CFERF Holistic Carbon Management Study



A CFO can remove uncertainty

CFOs are well positioned within an organization to remove this uncertainty looming in the environment.

A CFO can do this by mobilizing the necessary resources to prepare their organizations for carbon management activities.



“Almost half of heavy carbon emitters are adopting policies for carbon management and reporting and one in four are actively preparing to participate in carbon markets.”

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Why a CFO is the right person for the job:

- Broad exposure to multiple corporate functions;
- High expertise in risk evaluation and management;
- Experience with compliance reporting and regulatory management;
- Carbon management can have multiple financial implications;
- Well positioned to ensure problem is evaluated using strict financial metrics; and
- Positioned to provide guidance to organization.



Be prepared for carbon regulations

Waiting for carbon regulations to arrive before preparing is too late and can create an opportunity cost in harvest of tangible business benefits. Below are some suggested steps to take to prepare your organization for carbon disclosure.

1. Understand the regulatory and market landscape from a functional and directional perspective. Know the difference between mandatory compliance levels and optional reporting practices. Both mandatory and optional practices will have specific reporting requirements and timelines that need to be met.

2. Align the appropriate resources and responsibility for both compliance reporting and carbon management. The CFO should be assigned key stakeholder or owner with proper logistical support from senior staff,

operations and environmental departments.

3. Ensure a robust data collection and organization scheme is in place. The importance of accurate and transparent data is crucial to successfully run a carbon management program.

4. Establish clear and consistent key performance indicators (KPIs) upon which to measure data against. These KPIs should align with existing corporate KPIs.

5. For long-term planning entrench carbon management practices into core business processes to ensure long-term risk mitigation.



In summary

There is no question regulations surrounding carbon emissions will happen. The only question is when. And the only way to prepare your company for the future is to take immediate steps today.

Carbon management is more than just compliance. There are multiple benefits to tracking and reporting your company's carbon emissions, for example it can enhance your brand reputation, mitigate risks related to carbon emissions, create opportunities for potential new revenue streams, reduce overall emissions and exhibit your company as environmental leaders.

To end this carbon management insight we recommend, at a minimum, the following three questions be addressed today:

1. Is there ownership for carbon management in the organization?
2. Are financial impacts considered in making decisions related to carbon management?
3. Data? Where is it? Who owns it? How can we add value to it?



Burlington, ON
5420 N. Service Road
Suite 501
Phone: (905) 319 1717

Calgary, AB
2335, 162nd Ave. SW
Suite 1047, #327
Phone: (403) 802 0951

Vancouver, BC
422 Richards St.
Suite 300
Phone: (877) 702 3992

www.energyadvantage.com
contactus@energyadvantage.com
www.energyadvantage.com/blog

Montreal, QC
276 Rue Saint-Jacques
Bureau 802
Phone: (514) 843 4665

Charlotte, NC
15720 John J Delaney Dr.
Suite 300

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