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## Environmentalists considering 'cap-and-trade' carbon credits

Firmly entangled in the energy debate is global warming, the belief that human combustion of fossil fuels is warming the planet at an unsustainable rate. Although not accepted by all, the reality is that there is a movement under way for countries to become less carbon intensive in the future. It is estimated that more than 70 percent of the Standard & Poor's 100 companies have special sections on their Web sites dedicated to social and environmental policies and performance, up from 59 percent in 2005.



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### CAP-AND-TRADE SYSTEM

Between environmental concerns and political fodder emerges the perspective that greenhouse gases, or carbon dioxide emissions, have to be managed. One very viable option is through a "cap-and-trade" carbon credit system. In theory, the system will create a mechanism for organizations to pay for the pollution they create and reward those who reduce their emissions by drawing on the power of the marketplace to reduce emissions in a cost-effective and flexible manner.

Cap-and-trade systems would create a financial incentive for reductions by assigning a cost to CO<sub>2</sub> emission — usually equal to one ton of pollution per carbon credit. A "cap" would be established by the government, designed to lower emissions of major producers of greenhouse gases. Once this maximum level of emissions is established, companies would be free to buy and sell credits in a manner most beneficial to them.

For example, if a factory produces

100,000 tons of greenhouse gases a year and the government has enacted a law that sets the maximum amount of carbon emissions for one year at 80,000 tons, then that factory must reduce its emissions to 80,000 tons a year or purchase carbon credits to off-set the excess.

### EMERGING MARKETS

Carbon accountability is a reality, as is carbon trading in some areas of the world. Europe initiated this approach some time ago. Here in the U.S., carbon credit legislation is already being proposed on a federal level by representatives of both parties. As discussions continue, several different perspectives on how to write the law will be considered, but there is no doubt that the law will be written.

In preparation for this future legislation, markets are being established all over the world to buy and sell the excess credits. The entities that create significant CO<sub>2</sub> pollution and employ reduction techniques are going to benefit from these laws and the ability to trade excess carbon credits on an open commodity market. Those that create emissions above the mandated levels would be penalized and be forced to purchase additional credits.

### ESTABLISH A CARBON FOOTPRINT

As the likely legislation gets ironed out, it is important for companies to establish their carbon footprint by determining exactly how much CO<sub>2</sub> emissions they are responsible for each year. This is done by creating a baseline which will include all energy usage from all facilities the company owns or operates. Once the baseline is determined, a program is created to keep the usage numbers tracked and updated.

Regardless of the rules, knowing and un-

derstanding a company's particular profile is imperative in order to reap the benefits of the carbon credit system. It is critical to understand that this will affect virtually every company as a purchaser of electricity, since each company will be accountable for its use as part of its carbon footprint. Other elements to be considered when determining a carbon footprint are methane, nitrogen dioxide and refrigerants.

### VOLUNTARY TODAY IN TEXAS

A significant number of large corporations in Texas are embracing carbon reduction measures and are actively "going green." Although on the horizon, this legislation is still up in the air and currently all emission programs are voluntary in the state. Exactly how the emissions will be measured and how the quota will be determined have not been decided, making the need for an established carbon footprint critical.

Some industry experts favor a tax on carbon emissions, while others favor the cap-and-trade. Regardless, understanding current usage and beginning to develop programs for tracking emissions will put companies onestep ahead when the legislation is enacted.

To prepare for the inevitable, companies are encouraged to develop a roadmap to successfully navigate this important social and economic issue. This means proactively identifying internal and external expertise to develop a comprehensive plan that will meet both regulatory and shareholder scrutiny.

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