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MANY US UTILITY EXECUTIVES ARE NO LONGER WORRIED ABOUT CARBON CONSTRAINTS ON THEIR BUSINESSES. BUT IT MAY BE PREMATURE TO COMPLETELY FORGET ABOUT THE ISSUE, SAYS **LAWRENCE GOLDENHERSH**

In the swirl of the US political theatre, it is often difficult to decipher the trends on carbon. While many believe that the prevailing winds are blowing against meaningful nationwide carbon regulation, that view ignores important trends at both the federal and state levels.

If the "on the ground" view of current energy and utility compliance executives is deemed any guide, US industry does not regard carbon as a near-term cost centre with which it must deal. A February survey by Enviance of more than 140 energy and utility executives at the EUEC 2011 conference – America's largest energy, utility and environmental conference – revealed that 58 per cent have no system in place to track carbon.

The same survey found that 65 per cent of the professionals believe that a carbon trading system will not affect their business and so they need not put a plan in place to address the issue. This statistic represents a more than 20 per cent increase from respondents holding that view last year.

These professionals' view resonates with, and perhaps reflects, the stalemate on the carbon issue in the US Congress. Climate bills there have all but died, and grandstanding seems to be the order of the day. For example, the House of Representatives entertaining initiatives to de-fund the federal Environmental Protection Agency (EPA), knowing full well that such efforts have no chance of passing the Senate.

As Congress splutters on carbon, however, important trends elsewhere in the country suggest that critical US stakeholders are making carbon management an important priority.

In the executive branch, the US Securities and Exchange Commission's (SEC's) carbon guidance mandates that publicly-traded companies must track carbon and assess whether the cost poses a material adverse to company profits. This guidance represents "graduation day" for carbon emissions. It converts them from compliance to financial data, which has market significance and must be attended to with care and attention to detail afforded inventory numbers and other critical operating data.

In California, where one out of every nine

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Americans live, the people used the November 2010 mid-term elections to endorse the state's plan to implement a carbon cap-and-trade market in the eighth-largest economy in the world. In what was probably the most important plebiscite on climate legislation in the history of the US, Californians, by a margin of 62 per cent to 38 per cent, rejected a ballot proposition that would have delayed or killed cap-and-trade, providing the new California governor with a crystal clear mandate to move out on carbon.

Experts have estimated that California's market will produce a carbon price of about $40 a tonne of carbon dioxide (tCO2) by 2015 and as much as $87/t by 2020. It is estimated that by 2016 the California market will be the second largest in the world. Given its estimated size, the price signals coming from California will create the measure by which publicly-traded companies perform their SEC-mandated carbon risk assessments, and will preclude companies from claiming that cost is difficult to estimate.

In addition, as California implements this plan and its actions impact states and businesses outside of the state, Congress will face substantial pressure to put a federal programme in place that standardises the approach to carbon on a national level. Given the closely divided Congress, unilateral action will not be possible. Congressional leaders will be forced to choose between compromise and frustrating their constituents by allowing California to drag the rest of the nation through the carbon knothole.

Finally, certain so-called "supply chain environmentalists" in the commercial market are showing strong interest in using sound carbon management as a way to differentiate currently undifferentiated products. These companies can enhance product competitiveness by identifying and reducing carbon and other environmental factors throughout the supply chain that reduce sustainability and increase cost. Green brings green. ●

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