It's Not So Hard Being Green

Energy, climate change, and the responsibilities of directors

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RESPONSIBILITY FOR A COMPANY'S environmental and social issues rests with the board of directors. One of these issues, arguably the most important, is climate change, along with the related matters of greenhouse gas emissions (GHG) and energy. This article will focus on the direct links between these issues, and why directors need to care.

First, the good news. Taking corporate action on climate change can not only reduce the risks associated with these issues, but also lead to tangible financial and reputational benefits.

There are two basic approaches organizations should be taking regarding climate change: adaptation and mitigation. Adaptation refers to minimizing and responding to the effects of climate change, examples of which might include exposure of facilities to increased severe weather events, warmer weather and water scarcity. These challenges could represent strategic opportunities, as well as competitive advantages for some. A company's operations may be affected by climate change, whether or not it is a large emitter of GHG.

Mitigation refers to actions that are taken to reduce the GHG generated by a company's operations, products or services. The production and use of energy is responsible for fully 82% of the man-made GHG emissions in Canada, so the place to start is certainly with energy use.

But dealing with energy is not easy. Unlike most other major costs, such as labour and raw materials, most forms of energy (electricity, natural gas, steam) are delivered to your operations in wires and pipes that are buried underground and in the walls. Even when this energy is converted to heat, light and motive power, it is not obvious how much is being used and how much is wasted.

Understanding energy boils down to three basic questions:

How Much Is Used? The way to start is to benchmark your current practices. Although the energy bills you incur are one source of data, in most situations it is useful to have sub-meters to measure the amounts used in different processes – or, in leased office buildings, to even know what energy you are actually using. The next step is to compare your uses to "best practice" in other similar operations. Newer, more energy-efficient technologies continue to be developed, and most have short payback periods. Very large savings can also be achieved through improved conservation practices and behaviours – using technologies more intelligently.

When Is It Used? This is particularly important in the case of electricity, as companies may face demand charges based on their maximum electricity use at any one time in a month. As the cost of generating electricity may increase as more power is consumed across the system (thus requiring more expensive forms of generation), rates for electricity can also vary by time of day. Residents of Ontario will now be familiar with these "time-of-use" rates in their own homes.

Where Is It From? Some forms of energy emit more GHG than others. Coal typically emits the most GHG compared to other fossil fuels, with natural gas somewhat cleaner than oil or diesel fuel. Renewable forms of energy such as solar and wind are the best, while biomass as a fuel is considered GHG-neutral.

In many provinces, natural gas and electricity distributors offer voluntary financial incentives to help your company become more energy-efficient. Keep in mind that funding for these programs typically comes from mandatory charges on your gas and electricity bills, so participating in them is a way to get your money back.

There are examples from every industry of companies that have improved their bottom line through energy-conservation initiatives, and continue to make progress today. The Canadian Industry Program for Energy Conservation (CIPEC), jointly run by the federal government and private industry, has been documenting savings being achieved in the industrial sector for 30 years. In the commercial sector, many new buildings are being built to LEED standards and some are even carbon-neutral. Toronto's newly launched "Race To Reduce" competition is now engaging about 25% of the city's leased space ,with a target of reducing energy consumption by 10% by 2014. Even the institutional sector, where availability of public finances for conservation has been severely limited in recent years, is seeing greater use of performance-based solutions, which use the savings from conservation initiatives to finance energy upgrades, as well as other deferred maintenance projects.

Returning to the relationship between GHG emissions, climate change and energy, let's be clear. Climate change is real. The greenhouse gas effect is now widely recognized by the vast majority of scientists as being the principal cause of changes to the earth's climate. In addition to global warming, this means rising sea levels and increased incidence of drought, floods and diseases. The International Energy Agency (IEA), set up by the energy-importing industrial countries, concluded that "rising fossil-fuel energy use will lead to irreversible and potentially catastrophic climate change." Of 36 leading environmental/social issues, the World Economic Forum's global risks survey identifies climate change as having both the highest likelihood and the greatest perceived impact. Even a Pentagon-connected military advisory board, made up of former top military officers, concluded that "climate change acts as a threat multiplier for instability in some of the most volatile regions in the world."

There are many reasons why these issues are important to directors. In addition to the opportunity to save money and confront a major international environmental issue, here are other key factors that companies and boards need to consider:

- **Current Regulations:** Federal regulations currently require facilities in a range of industries to submit their annual GHG emissions. The Canadian Securities Administrators requires companies to disclose any material facts, risks and uncertainties relating to their operations in the Annual Information Form, which could include GHG emissions if these are deemed to be material. And as MD&A annual filings require disclosure of information that is likely to be material to investors, companies need at least to determine what, if any, climate-change information could be considered material.
- **Future Costs:** Commodity prices, including energy, have trended higher and have been very volatile. Recent analysis suggests that these prices will remain high and volatile for at least the next 20 years.
- **Retaining/Attracting Most Productive Employees:** Employers are noticing that both current and new employees increasingly want to work for companies that they perceive as responsible corporate citizens that demonstrate leadership on sustainability. Studies also show that companies that are leaders in sustainability experience important productivity gains.
- **Performance:** A recent study found that "High Sustainability" companies significantly outperform their counterparts over the long term, both in terms of stock price and performance.
- **Future Price of Carbon:** B.C. and Alberta have programs that place a price on carbon emissions. Other provinces and the federal

government have set emission-reduction targets. The Canadian Council of Chief Executives has called for a national approach to carbon-pricing policy. While there has been little progress on carbon pricing in the U.S., this could change next year, and Canada has stated that it will follow the U.S. lead in this area.

As a responsible director, what this all boils down to is ensuring that you understand the risks, strategies and financial impacts of your company's activities that relate to climate change. And, of course, ensuring that these are issues being fully addressed by the company's senior management.

To better understand your role as a director on climate change, I would recommend reading the Climate Change Briefing: Questions for Directors to Ask, produced by the Chartered Accountants of Canada (available for purchase or free download at www.rogb.ca). And consider attending the upcoming ICD 2012 National Conference in Edmonton on May 30, the theme of which is Sustainable Development: Embracing Environmental, Social and Geopolitical Challenges Responsibly.

Taking action on climate change is the right thing to do: for your company's bottom line, its reputation and, most important of all, for our kids.

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