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The carbon reporting challenge just got tougher

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Conrad Bates, Managing Partner at C3 Business Solutions says that the carbon tax will put additional pressure on companies to report their carbon emissions more frequently and it's time companies started thinking about how they're going to gather this information.

According to the *Australian Financial Review*, “during the fixed period (2012 to 2014) companies will need to progressively discharge 75% of their liability over the financial year with the rest of their obligation due to February 1 the following year”. So now it's about a ‘permit flow’ position also (like cash flow) as well as a profit and loss (P&L) impact and a converted liability on the balance sheet.



Conrad Bates

Conrad points out that under the National Greenhouse and Energy Reporting System (NGERS) companies just had to report annually. Now they have to understand their position throughout the year – not just at year-end. If they have to now discharge the liability throughout the year: the frequency of reporting has to go up significantly. He argues that this will have a profound impact on the reporting effort, estimating companies having to report at least monthly.

The proposed tax should pass into law later this year and provide a track to an emissions trading scheme (ETS) by 2015, so organisations need to know their position. “Businesses need to get their heads out of the sand. Without reporting carbon emissions, it's like trading without a P&L,” says Bates.

The introduction of the NGERS and the impending carbon and ETS tax, means that Australian organisations will be required to register, report and ultimately offset emissions with carbon credits. The impact on EBIT for many organisations is expected to be significant.

In addition, key findings from the Gartner report in September 2009 alluded to the importance of

having the appropriate Information Technology (IT) tools to deal with carbon accounting and noted, “for Organisation for Economic Cooperation and Development (OECD) and Asia/Pacific (APAC) energy merchants and utilities, emissions trading can be viewed as a compliance issue or a developing market opportunity.

Either way, IT should actively participate in the development of business processes and the supporting information flows”. Amongst the report’s key findings were, “the market for vendor solutions associated with emissions management, accounting and trading remained fragmented, with APAC-specific solutions largely limited to cross-industry carbon accounting tools.

It made five key recommendations:

- Take an active role in emissions trading project planning and development. Emissions trading for APAC utilities is, initially, an exercise in process and information management, playing to the strengths of IT functions;
- Take the opportunity to develop internal staff now in IT as well as the affected business functions, in preparation for the arrival of ETS;
- Realise that any IT solutions should be simple and flexible. Explore the possibility of extending existing solutions. Early transaction volumes are likely to be low, and schemes are prone to change during the early years;
- Look to the example of the European Union ETS in terms of the systems used. This is the largest and longest operating carbon trading scheme; and
- Keep one eye on the long term. If transaction volumes rise significantly, purpose-built emissions trading and risk management tools to process larger volumes and update positions on demand may be required.

Carbon accounting, the big liability

Bates spoke to *Environmental Management News* (EMN) and explains why some of the countries top emitters should be already proactively looking at the relevant IT tools to account for every last bit of CO₂.

“The key issue for companies will be the change in the tact around the annual cycle of carbon reporting, to intra year reporting from annual reporting, because they have to equip 75% of their liability throughout the year. So they have to know their current position through NGERS yearly reporting cycle, but also understand their carbon position and report on 75% of their tax liability

throughout the year. This means the frequency of the report collection process will go up significantly, and therefore the obligation and the cost will have significant impacts,” Bates adds.

For Bates there are three key impacts, these are: “the impact on cash flow, because firms are acquitting 75% of their liability throughout the year; the second major impact is on P&L statements; and thirdly is the balance sheet impact. The process for the payment milestones and obligations has a subsequent impact on the support companies need from their IT system to achieve the outcomes that they need to report against,” he adds.

“Basically, it will get more complicated and create more effort. It’s going from a yearly process to a monthly basis. Tie that to the financial obligation they have based on that activity and then coming up with the money based on the actual emissions in that month. Now, that’s a frequency in workload over the current yearly reporting cycle.

“Then they have seasonal adjustments in their activity and carbon emissions, which also has an impact in the forecasting process, i.e. more heating in winter and more cooling in summer. They will have to know the profile of their carbon emissions throughout the year so they can forecast those emissions on a monthly basis.

When EMN asked how they would achieve this in a clear and timely manner Bates comments, “there are a couple of implications. One is an increase in staff workload but there’s also more of a driver to have the IT system to support that activity more than ever before.”

“When it had to be done once a year it was done manually and they gathered it together in spreadsheets, but now they have to understand the position in relation to the activity that the organisation produces. For example, if there’s X amount of trucks moving around, or X amount of smoke stack emissions, they need to know the activity drivers that drive those emissions, then they need to know the cost impacts of changes to the activity drivers in a forecasting model.

“So they have to take many sources of information, i.e. sources of info from their manufacturing system or from their logistics systems and correlate that against the emissions that are produced as a result of the activity. So like a BAS statement you have to record and track your emissions and tax liability against your emissions.

"The latest NGERs reporting (April 2011) lists all the registered emissions intensive companies; if you look at the top 5, on scope 1 and 2 emissions you have: Macquarie Generation, Delta Electricity, Great Energy Alliance Corporation, International Power, and Rio Tinto. These 5 firms combined produce total scope 1 emissions of around 19-24 million kilotonnes.

"So you take the carbon price of \$23 and multiply Macquarie's (Scope 1) 23 million kilotonnes and multiply that by \$23 you get a \$538 million scope 1 liability (Bates did note that the final number dependent on the amount of government transitional support they get under the legislation), and another \$5 million of scope 2 liabilities, that's a significant impact on cash flow and that's every year," he concluded.