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**Ask the Experts**
 by Steve Rice & Richard MacLean
 March 2004
Renewable Energy Certificates

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What are Renewable Energy Certificates (RECs) and what business value do they provide?

Steve: Perhaps the best summary I've seen is provided in the World Resources Institute's [Corporate Guide to Green Power Markets – Installment 5](#). It states, "RECs are a renewable energy product that companies purchase to reduce the environmental impact of their business activities. A REC represents the environmental attributes, such as CO2 emissions, that are created when electricity is generated using renewable resources instead of fossil fuels such as coal, oil and natural gas. RECs can be sold separately from their associated electricity and thus enable customers to purchase the environmental attributes of renewable power generation independently of their retail power supply. Purchasing RECs, therefore, can be an effective means for a company to 'green' the electricity it consumes."

The deal 'flow' can work in either of two ways. First, companies interested in installing electricity generation equipment with reduced emissions can use RECs as an imbedded asset value to be extracted and recovered. This reduces the total net cost of the equipment. In a reverse flow, initiating parties can partially fund another party's project that produces a greater amount of emission offsets at a lower cost than the initiating party can achieve themselves.

RECs' largest advantage is that they can lower the net capital investment cost for electrical generation projects, increasing their Return On Investment (ROI) and improving the projects' economics. In these days of tight capital budgets and short return horizons, they may mean the difference between the project getting approved or being 'postponed for further review'.

Their largest disadvantage is that there is no established, substantive marketplace yet. Finding partners to buy or sell the RECs remains a difficult task and typically involves brokers' fees. Also, I know of no system of asset review, other than Green-E certification, that ensures the purchaser the emission reductions being purchased are real, accurate and ongoing. As with brokers' fees, though, this also takes a rather substantial bite out of the imbedded asset value that is trying to be recovered. The purchaser thus also has the task (and cost) of ensuring their credits are still valid over the contract duration and haven't been, or won't also be, sold to someone else. Any REC purchase arrangement should include provisions for conducting performance audits and obtaining restitution in the event of non-performance.

Finally, not all REC's are the same. The 'environmental attributes' that purchasers buy, such as CO2, NOx, and/or SOx credits, will vary widely depending on the emissions profile associated with the electricity generated by the regional power grid in which the RECs are located.

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From a practical standpoint, how can a new EH&S manager undertake a high-level

strategic risk review of a company's operations when it has hundreds of facilities?

Richard: It is essential for someone new on the job to discover quickly the hidden skeletons in the closet because within a year or two they will become their skeletons. You may survive if one or two of these issues erupts unexpectedly. No one is perfect. Beyond that, top management will begin to wonder if you have the situation under control and whether you have an adequate grasp of the issues. Management should be informed of these pre-existing issues and assured that you will be working on strategies to reduce their risk.

You do not need to review every facility, only those that are most critical and a statistically significant representation of the others. In most companies and especially in large corporations, senior EH&S staff members have a good idea of which facilities represent the most risk. Typically, these are the sites that have: (1) handled toxic materials for decades; (2) had numerous problems in the past; (3) poor EH&S competencies, management systems, or understaffed EH&S departments; and/or (4) recently joined the company and have never undergone a thorough evaluation.

Hopefully, all of these high-risk facilities can be evaluated. For the others, use a risk profile to prioritize the issues and take a statistically significant cross-sectional representation: many at the top, some at the middle, and a few at the bottom of the risk profile. Do not sample only high-risk sites, since this presumes that you already know the risks. Some of the low-risk facilities may have significant, heretofore unknown, issues. For some companies or business units that have scores of similar sites, consider doing a process map of the common processes and review a few representative sites.

There is an old saying that there are few resources to prevent problems but unlimited resources to fix them. The point is that if your assessment uncovers significant issues, budget constraints may suddenly evaporate and the resources you need for a more thorough investigation may be placed at your disposal. Management may not be happy, but they will be more receptive than being blindsided at some future point. After all, you were not the person who created these problems or let them fester out of sight for years.

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Is there a way to create an environmental footprint for our regional bed & breakfast business, then promote the effort among other lodging properties in the region?

Steve: Absolutely! While there are many initiatives to help people create their own, individual environmental footprints, many more others have been created for businesses, including those in the travel, tourism and lodging segments. There is a wealth of information and tools right here on Greenbiz.com. These include, though are by no means limited to:

- [Greenbiz Essentials](#) – a compilation of various reports and primers. Check out [Greening Your Business: A Primer for Smaller Companies](#) and [Environmentally Responsible Business Travel](#). The links under Lodging in the Greening Your Business section, such as the *Green Hotels Association* and Green Seal's *Environmental Standard for Lodging Properties* will be particularly useful to you.
- [Greenbiz Tools](#) – Useful tools to help you achieve your objectives. The [Sustainability Metrics](#) guide, [Benchmark Hotel](#) self assessment tool, and [Green Hotels Best Practices Survey](#) should be useful. I've used the Benchmark Hotel self assessment tool with a client and found it to be capable though it needs a bit of tweaking to be useful for any individual lodging property. The Green Hotels Best Practices Survey was prepared as a part of the Green Hotels Initiative, though I'm not sure of its current status as it doesn't appear to be posted on the [CERES Web site](#) any longer.
- Finally, Greenbiz.com's Toolbox also contains a [Mentoring Handbook](#) that should prove useful in developing a strategy, designing and promoting a program, and being an effective mentor.

Now, as far as promoting the effort, local seminars and workshops are helpful, so long as you also promote their availability and eventual results. Local and regional newspapers, lodging/tourism magazines and regional business networking groups will be very useful for both. In fact, while recently on vacation in Kona, Hawaii, the weekly tourist magazine featured a sustainable coffee grower – it got me to seek out and purchase their product. Too bad they never returned my phone calls requesting an interview and tour.

Such promotional efforts and publicity may have unintended positive benefits that go beyond having a better business, attracting new customers and retaining existing ones. I know of at least one business that got so much positive publicity that the increased time and effort led to the creation of a very successful, parallel part-time business consulting business in the same region and industry.

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How do EH&S departments demonstrate that they are adding business value?

Richard: Companies such as 3M and Baxter International have tracked the cost savings that EH&S activities have brought to the business. This gives a general indication of EH&S department value but, arguably, it is not necessarily a measurement of how a specific EH&S group is meeting business management's expectations and needs. For example, many of the pollution prevention projects for which 3M is famous were initiated by process engineers that were not in the EH&S group. In addition, tracking EH&S cost savings will not insulate a group from significant cutbacks, as Baxter International's recent EH&S staff reductions sadly demonstrate.

EH&S groups can "demonstrate their mettle" through a number of methods beyond just identifying cost savings. The most common is good (internal) client interaction - quality executive face time is important. Also, some groups conduct internal, written surveys of client satisfaction. If done properly, issues can be identified before they erupt.

The budget review process is another prudent time to get the issues out in the open. If the people paying the bills believe that they are not getting their money's worth, these discussions can be an early warning indicator. Client team meetings (to periodically check on how things are progressing) are another technique. Since corporate EH&S groups sometimes provide EH&S services to other EH&S departments, it is important that the EH&S groups get together on occasion to discuss how things are going.

Client points-of-contacts can act as an early warning radar for potential issues. These client points-of-contacts and written service agreements are often used in EH&S shared service departments. When these departments first formed (about a decade ago), written agreements tended to be quite formal. The paper work is less burdensome today, but the face-to-face discussions at the beginning of each new business cycle are still essential.

A few (very few) companies have conducted formal value reviews to examine exactly how EH&S staff members spend their time. The objective is to drop low-value activities.

Much of the value proposition is about management's awareness of what the EH&S group does. The best companies have systems to measure and monitor performance of the group and provide executives feedback on how well the company is providing EH&S services.

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What is the best way for an MBA student to get direct experience with sustainability and the "triple bottom line" during a summer internship when he or she has no relevant experience - just passion?

Steve: To borrow a line from the old Smith Barney investment company advertisement, "The old fashion way – earn it". That is, research the organizations which conduct that kind of work, find out what kind of work they are and will be doing, and determine the appropriate person to contact. Get on the phone, email and internet and start right away. Also, manage your expectations – don't expect to get paid by someone to gain the experience you want.

You may want to start with non-profit research, advocacy and education groups; they are always seeking free assistance. Some for-profit firms might be interested, but in my own experience the time/effort to steward and train an inexperienced intern costs more than merely hiring an experienced person.

Academic centers or institutes might also be a good place; start with a two-tiered list of "A" institutes with high-profile reputations and programs and "B" institutes with good, though not quite so high-profile, reputations and programs. Again, your initial research should produce a pretty good list in a relatively short time.

One trick is to check out the job postings on sites like Greenbiz.com, [Environmental Expert.com](#) and [SustainableBusiness.com](#). Find a job that provides the type of experience you're seeking, yet could be accomplished by someone with no experience (the term 'trainee' is a good indicator). Try applying for the job with the caveat that in exchange for a temporary duration, your salary expectation would be zero.

Don't merely send a letter though; speak with the appropriate contact directly and be sure to show that you have done your research on the organization and its activities. From experience, few things are more annoying than getting a call from someone seeking a position who has no clue about what the company or organization does, or insight about its needs.

It's not exactly a way to earn tuition for the following year, but you'll get the experience!

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Postscripts: Somewhere, Over The Rainbow. The past few years we have commented in this column about the dearth of jobs, or at least suitable, well-paying jobs, in the fields of EH&S management and sustainability. Fortunately, that seems to be changing.

Only a few weeks ago we started hearing of a few job openings from people who had been seeking positions for up to two years – or more. A quick check of the job listing websites referred to in one of the responses above (and the various page sponsors' links and

advertisements) revealed a surprisingly long list of open positions. Even more surprising, there is a small population of corporate and consulting company jobs, not merely the speculative, poorly funded non-profit organization program manager or events coordinator positions.

That's a delightful and long-awaited development.

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Got A Question?

Send your question about environmental management issues to Experts@GreenBiz.com

We can't guarantee that we'll answer every question, but we'll try.

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