

OCTOBER 2, 2009, 7:38 A.M. ET

EMISSION CRITICAL: Software Firms Look To Carbon Tracking

By Naureen S. Malik
A DOW JONES NEWSWIRES COLUMN

NEW YORK (Dow Jones)--A recent move by U.S. regulators means more paperwork for companies emitting greenhouse gases. That's a boon for the emerging environmental-software industry.

Last week, the Environmental Protection Agency finalized a rule that will require annual reporting from 10,000 facilities that account for 85% of the emissions that contribute to potentially catastrophic climate change. The first such reports detailing types of emissions and volumes are due to the EPA on March 31, 2011.

Ripple effects from the U.S.'s shift toward addressing global warming under the administration of President Barack Obama are now being felt beyond industries such as power generation and crude-oil refining that are directly affected. Software start-ups as well as software giants SAP AG (SAP) and Microsoft Corp. (MSFT) have taken note and rolled out products.

The EPA rule was a "tectonic shift" for the niche industry, said Lawrence Goldenhersh, founder and chief executive of Enviance, a provider of Web-based greenhouse-gas emissions solutions.

The global market for carbon accounting, collecting data and consulting services is expected to balloon from \$510 million in 2009 to \$7 billion-\$9 billion in two to three years, said Paul Baier, vice president of consulting firm Groom Energy Solutions. SAP, which acquired Clear Standards earlier this year for an undisclosed sum to enter the market, estimates that the untapped potential is \$15 billion worldwide.

Even if Congress fails to pass wide-ranging climate change legislation, demand for such services will continue to grow due to shareholder and consumer demands for information, Baier said.

Enviance's software-as-a-service model is one of the most efficient ways to manage carbon data, according to Verdantix, an independent research firm. The Carlsbad, Calif.-based company boasts 12,000 customers - half of which are Fortune 1000 firms - that subscribe to software that helps them manage compliance with thousands of local and federal environmental, health and safety codes. That client base represents a huge opportunity for Enviance if they sign on for services to help them adhere to the new EPA rule, Goldenhersh said.

Major customers include American Electric Power Co. Inc. (AEP), Chevron Corp. (CVX), E.I. DuPont de Nemours & Co. (DD), PG&E Corp. (PCG) and the U.S. Army.

Enviance's core software, customized for every facility, sends alerts when there is a chemical leak or ahead of compliance deadlines. Designed by emissions experts, the software accurately measures carbon output based on the type of greenhouse gas emitted, whether its carbon dioxide, methane or another compound.

An Internet-based dashboard lets managers view emissions for specific plant processes or on a company-wide level.

This year, the company turned profitable for the first time and is expected to generate \$20 million in sales. Enviance has raised \$31 million in venture capital money since it was founded a decade ago. Enviance's revenues could grow 30% annually over the next three to five years as more companies look to comply with the EPA rule, said Dan M2iklovic, research vice president for Gartner, a technology research firm.

There's also a profit motive. Tweaking consumption patterns can reduce energy costs by at least 5%-8%. The environmental-compliance software typically saves customers \$500,000 annually per facility and frees up employees who were inputting data on spreadsheets for other tasks, Goldenhersh said.

So, it's no surprise that software giants are starting to latch onto the trend. SAP is one of Enviance's biggest threats, but Gartner's Milcovic said that their system "is based more on breadth than depth." SAP, though, is making a big push in this industry and is using its entire salesforce to get its base of 90,000 customers to adopt its own web-based carbon-management software. The pipeline of Clear Standards' new projects has quadrupled since the acquisition was announced in May, said Anirban Chakrabarti, vice president of SAP Carbon Impact and former CEO of Clear Standards. Last week, SAP announced it is teaming up with Microsoft and Accenture Plc (ACN) to develop analytical carbon-reporting tools.

While acknowledging that Enviance may have an edge for their environmental-compliance solutions at local plants, Chakrabarti said, "we believe in the next 12 months we are going to be so far ahead."

The key difference, he noted, is that Enviance is building its base through various corporate departments while SAP's has cemented its relationships "on the board level."

Still, SAP's pursuit of snagging carbon-management business with large corporations leaves plenty of room for niche firms to thrive. Enviance's combination of environmental-compliance software and carbon-management solutions could make it a prime takeover target. CEO Goldenhersh said the company has been receiving offers but has no imminent plans to merge or go public.