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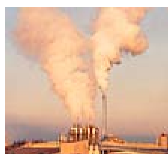
COVER STORY
By **Ben Elgin**

Little Green Lies

The sweet notion that making a company environmentally friendly can be not just cost-effective but profitable is going up in smoke. Meet the man wielding the torch

COVER STORY PODCAST

Auden Schendler learned about corporate environmentalism directly from the prophet of the movement. In the late 1990s, Schendler was working as a junior researcher at the Rocky Mountain Institute, a think tank in Aspen led by Amory Lovins, legendary author of the idea that by "going green," companies can increase profits while saving the planet. As Lovins often told Schendler and others at the institute, boosting energy efficiency and reducing harmful emissions constitute not just a free lunch but "a lunch you're paid to eat."



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Inspired by this marvelous promise, Schendler took a job in 1999 at Aspen Skiing Co., becoming one of the first of a new breed: the in-house "corporate sustainability" advocate. Eight years later, it takes him six hours crisscrossing the Aspen region by car and foot to show a visitor some of the ways he has helped the posh, 800-employee resort blunt its contribution to global warming. Schendler, 37, a tanned and muscular mountain climber, clambers atop a storage shed to point out sleek solar panels on an employee-housing rooftop. He hikes down a stony slope for a view of the resort's miniature power plant, fueled by the rushing waters of a mountain creek. The company features its environmental credentials in its marketing and has decorated its headquarters with green trophies and plaques. Last year Time honored Schendler as a "Climate Crusader" in an article accompanied by a half-page photo of the jut-jawed executive standing amid snow-covered evergreens.

But at the end of this arid late-summer afternoon, Schendler is feeling anything but triumphant. He pulls a company sedan to the side of a dirt road and turns off the motor. "Who are we kidding?" he says, finally. Despite all his exertions, the resort's greenhouse-gas emissions continue to creep up year after year. More vacationers mean larger lodgings burning more power. Warmer winters require tons of additional artificial snow, another energy drain. "I've succeeded in doing a lot of sexy projects yet utterly failed in what I set out to do," Schendler says. "How do you really green your company? It's almost f------ impossible."

Barely a day goes by without a prominent corporation loudly announcing its latest green accomplishments: retailers retrofitting stores to cut energy consumption, utilities developing pristine wind power, major banks investing billions in clean energy. No matter what Al Gore's critics might say, there's no denying that the Nobel Prize winner's message has hit home. With rising consumer anxiety over global warming, businesses want to show that they're part of the solution, says Chris Hunter, a former energy manager at Johnson & Johnson (**JNJ**) who works for the environmental consulting firm GreenOrder. "Ten years ago, companies would call up and say 'I need a digital strategy.' Now, it's 'I need a green strategy.'"

Environmental stewardship has become a centerpiece of corporate image-crafting. General Electric (**GE**) says it is spending nearly all of its multimillion-dollar corporate advertising budget on "Ecomagination," its collection of environmentally friendly products, even though they make up only 8% of the conglomerate's sales. Yahoo! (**YHOO**) and Google (**GOOG**) have proclaimed that by 2008 their offices and computer centers will become "carbon neutral." Fueling the public relations frenzy is the notion that preserving the climate is better than cost-effective. But Schendler, who only a few years ago considered himself a leading proponent of this theory, now offers a searing refutation of the belief that green corporate practices beget green of the pecuniary variety.

EMPTY BOASTING

Charismatic and well-connected among environmental executives, he has begun saying out loud what some whisper in private: Companies continue to assess most green initiatives with the same return-on-investment analysis they would use with any other capital project. And while some environmental advances pay for themselves in time, returns often aren't as swift or large as competing uses of corporate cash. That leads to green projects quietly withering on the vine. More important, and contrary to the alluring Lovins thesis, many major initiatives simply aren't money-savers. They come with daunting price tags that undercut the conviction that environmental salvation can be had on the cheap.

Schendler explains his confessional mood as the result of cumulative frustration: with foot-dragging colleagues, with himself for compromising, and with the entire green movement frothily sweeping through corporations in America and Europe. So far his candor hasn't cost him his job, though rival resorts have groused about Schendler to his bosses. His colleagues tolerate him with a combination of personal affection and periodic annoyance. "We have a very self-critical culture," says Mike Kaplan, Aspen Skiing's chief executive. "We wouldn't have Auden any other way." The company, Kaplan adds, has led its industry on the environmental front.

Schendler grits his teeth over the failure of modest proposals, such as his plan last year to refurbish one of the resort's oldest lodges to use less energy. He estimated the $100,000 project would have paid for itself in seven years through lower utility bills. But the money went for new ski lifts, snowmobiles, and other conventional purchases. "The availability of capital is not infinite," says Donald Schuster, vice-president for real estate.

Beaten back frequently, the environmental executive concedes that he made a mistake last year when he pushed the resort to make audacious green claims based on the purchase of "renewable energy credits." RECs are a type of financial arrangement that companies increasingly use to justify assertions that they have reduced their net contribution to global warming. But the most commonly used RECs, which are supposed to result in a third party's developing pollution-free power, turn out to be highly dubious

(BW—Mar. 26). Aspen Skiing relied on RECs in declaring it had "offset 100% of our electricity use." Schendler now concedes the boast was empty.

Aspen Skiing is far from alone in making suspect claims of green virtue. Setting aside questionable renewable energy credits would wipe out the climate-saving assertions of dozens of major corporations celebrated for their environmental leadership. Office products retailer Staples (SPLS) has used RECs to turn a 19% spike in emissions since 2001 into what it claims to be a 15% decline, the company's sustainability reports show. PepsiCo (PEP) and Whole Foods Market have employed the credits to make declarations that every bit of pollution from electricity they use is negated. Johnson & Johnson has proclaimed a 17% reduction in carbon emissions since 1990, based largely on RECs. Without the credits, the pharmaceutical giant has seen a 24% increase, J&J executives acknowledge. "Recent corporate moves by J&J and others are pushing in the right direction, but it is still window dressing compared to the problem at hand," says Hunter, the former J&J manager.

Amid the overheated claims, some corporations have made legitimate environmental gains. Wal-Mart Stores (WMT) helped spark the market for energy-saving fluorescent bulbs by giving them top billing, even though incandescent bulbs are more profitable. Office Depot overhauled lighting and energy in more than 600 stores, contributing to the company's real 10% decline in releases of heat-trapping gases. Dow Chemical (DOW) and DuPont (DD) have significantly trimmed their actual emission levels. But there is still reason to worry about long-term commitment. Dow says it invested $1 billion to help achieve reductions of 19% between 1994 and 2005. Because of technological challenges and costs, however, Dow predicts that additional cuts won't occur until 2025, 18 years from now.

Much corporate environmentalism boils down to misleading statistics and hype. To make real progress, genuine accomplishments will have to be sorted out from feel-good gestures. Schendler no longer views business as capable of the dramatic change he thought possible eight years ago, the sort of change that corporations have grown accustomed to boasting about. His own employer is "a perfect example of why this won't work," he says. "We've had a chance to cherry-pick 50 projects and get them done. But even if every ski company could do what we did, we'd still be nowhere."

`TRENCH WARFARE'

Auden Schendler felt nature's pull at the age of 14, when his uncle took him on a backpacking trip through the rugged Bob Marshall Wilderness in northwest Montana. Growing up in the scruffy New Jersey city of Hackensack, he always felt cramped and out of place. He escaped up the Atlantic coast to Maine, where he majored in environmental studies at Bowdoin College. "I became the person I wanted to be: a mountaineer, an outdoorsman." During this period he scaled Alaska's 20,300-foot Mount McKinley and made several trips up treacherous Mount Rainier in central Washington. On another adventure, he trekked alone on skis for nine days across a wintry Yosemite, sleeping in hand-carved snow caves. "I am at my happiest on a fall morning, in a high-mountain campsite, maybe 12,000 feet," he says. "The air is crisp and chilly, and some coffee is brewing on the campfire. What is better than that?"

After college he moved to Aspen and taught skiing and high school math. The state of Colorado provided his first paid environmental job, weatherizing the trailers of poor families to help them save energy. This involved crawling beneath flimsy homes, where he sometimes encountered the decomposing carcasses of raccoons. "It was gritty work," he says, "the trench warfare of climate change."

In 1997, he took a job at the Rocky Mountain Institute (RMI) just outside Aspen, which Lovins had co-founded 15 years earlier. Lovins, a physicist by training, was collaborating with his then-wife, L. Hunter Lovins, and businessman Paul Hawken on a book called *Natural Capitalism*, which became a best-seller. By rethinking their operations and choosing materials wisely, the book argued, companies could produce far less pollution and earn more. "Auden is terrific," Lovins recalls of his "vigorous, smart, and dedicated" former employee, who did research for Natural Capitalism. An obsession with efficiency pervaded the institute: Schendler recalls being chastised for boiling water in the kitchen without a lid on the kettle. He idolized Lovins and went jogging with Hawken. "Instead of going to graduate school, I went to RMI," he says.

He heard in 1999 that Aspen Skiing, a complex of hotels and ski runs popular with wealthy vacationers, was looking for an environmental director. The job seemed a perfect fit. "When I left RMI, I felt that government was powerful but businesses were nimble enough and motivated enough by profit to make changes that we need," he says. "I was indoctrinated." The ski industry, which gorges on energy to create a fantasy of always-plentiful powdered snow and cozy alpine hideaways, offered an ideal place to put these abstractions into practice.

RESISTANCE FROM WITHIN

Aspen Skiing, privately owned by the Crown family of Chicago, which made billions on its stake in military contractor General Dynamics (GD) and other enterprises, exudes an earnest concern about nature—not least because its business would melt away if temperatures rose just a few degrees. "My kids say: God, Dad, are we going to ski when we're your age?'" says Kaplan, the CEO. "I have to tell them: I don't know.'"

Then 29, Schendler received a genial welcome at Aspen Skiing's wood-paneled headquarters near the county airport. "Auden came with some great athletic credentials," recalls John Norton, then the chief operating officer. "He's a terrific kayaker and skier, and that's a guaranteed ice-breaker in a ski company." But when it came to spending the company's money, things became complicated.

He first took aim at the 90-room Little Nell Hotel. The luxurious lodge nestled at the base of Aspen Mountain devours so much electricity that Schendler assumed it would be simple to find efficiencies. He told its then-manager, Eric Calderon, he wanted to put fluorescent lightbulbs in all guest rooms. The new bulbs would last 10 times as long, use 75% less power, and pay for themselves in only two years. The answer was no. Calderon, who favors dapper blue blazers and chinos, worried that fluorescent light would suggest a waiting-room ambience, jeopardizing the establishment's five-star rating. "There's always a question of balance between environmental concerns and satisfying expectations of the clientele," he says.

Thwarted on guest rooms, Schendler switched to Little Nell's underground garage. Guests never saw it because valets park all cars. For $20,000, Schendler said he could replace energy-gobbling 175-watt incandescent light fixtures with fluorescent bulbs and save $10,000 a year. Unimpressed, Calderon again balked. If he had $20,000 extra, he would rather spend it on items guests would notice: fine Corinthian leather furniture or shiny new bathroom fixtures.

At the company's next senior management meeting, Schendler brought an unusual display to make his case for new garage lights. He had wired a stationary bicycle to show how much less energy fluorescent bulbs consume. Thirty managers watched as Schendler challenged a burly executive to hop on the bike. Sure enough, it took much more sweat to make several incandescent bulbs glow. But Schuster, the real estate chief, didn't believe the new lights would save money. "I was skeptical on the ROI [return on investment] calculations Auden had presented for the retrofit," Schuster recalls. "One of my concerns was that we were committing capital based on theoretical returns without any real opportunity for a look back on the actual returns."

It took Schendler two years to overcome resistance to the garage-light replacement, and then only after he secured a $5,000 grant from a local nonprofit. He acknowledges the strangeness of a corporation with annual revenue of about $200 million, according to industry veterans (the company declines to provide a figure), seeking charity to reduce its electricity use. With a hint of sarcasm, he notes: "This is the sort of radical action that's needed to get people over ROI thresholds."

WHEN BREAK-EVEN WON'T DO

Larger-scale versions of his lightbulb struggle are playing out at numerous other companies. Hailed as an environmental pioneer, FedEx (FDX) says on its Web site that it is "committed to the use of innovations and technologies to minimize greenhouse gases." With 70,000 ground vehicles and 670 planes burning fuel, the world's largest shipper is a huge producer of heat-trapping gases. Back in 2003, FedEx announced that it would soon begin deploying clean-burning hybrid trucks at a rate of 3,000 a year, eventually sparing the atmosphere 250,000 tons of greenhouse gases annually from diesel-engine vehicles. "This program has the potential to replace the company's 30,000 medium-duty trucks over the next 10 years," FedEx announced at the time. The U.S. Environmental Protection Agency awarded the effort a Clean Air Excellence prize in 2004.

Four years later, FedEx has purchased fewer than 100 hybrid trucks, or less than one-third of one percent of its fleet. At $70,000 and up, the hybrids cost at least 75% more than conventional trucks, although fuel savings should pay for the difference over the 10-year lifespan of the vehicles. FedEx, which reported record profits of $2 billion for the fiscal year that ended May 31, decided that breaking even over a decade wasn't the best use of company capital. "We do have a fiduciary responsibility to our shareholders," says environmental director Mitch Jackson. "We can't subsidize the development of this technology for our competitors."

Schendler faces the return-on-investment challenge on almost every proposal he makes. Earlier this year, he pushed his employer to bankroll a $1 million solar-energy farm on

the outskirts of Aspen. Like most electricity consumers in the Rockies, Aspen Skiing's power comes primarily from coal-fired plants, which emit large amounts of carbon dioxide. With federal tax breaks aimed at encouraging clean energy, the football-field-size solar array might generate a paltry 6.5% return, meaning it would pay for itself in 15 years. It barely got approved, says Chief Financial Officer Matt Jones. "We put this together with duct tape and chewing gum."

Schendler's persistence eventually won him admirers even among executives who didn't agree with his entire agenda. "We were trying to run a very complex set of businesses—four ski areas, three hotels, two athletic complexes, and a golf course—but Auden never let us forget that he belonged in the family portrait," says Norton, the former COO and the man Schendler recruited for the bike-powered lightbulb demonstration. "Usually he elbowed in with good humor, but also sometimes with the grim single-mindedness that's the mantle of a true believer."

`I WAS GETTING KILLED'

Schendler, who is married and has two young children, ranks below top managers at Aspen Skiing but attends most of their important meetings. The company zealously guards salary amounts, and he won't reveal his, but a person familiar with Aspen Skiing estimates that he earns about $100,000 a year. Perpetually on the move, Schendler gets his hands into everything, fiddling with a boiler knob and inquiring why a building's lights were on the previous night. He sometimes seems self-conscious about his East Coast, elite-college pedigree, compensating with gestures like helping rewire a lodge's electrical circuits. Teasing follows him everywhere, he says. "I can't tell you how many times I've heard, Hey, Auden, I recycled a can today.'"

One of his proudest victories is the small hydro-power plant the company spent $150,000 in 2003 to install on one of its ski slopes. It's fed two months of the year by a stream that turns into a roaring creek when the snow melts. The other 10 months it's dormant. Inside the small hut containing the plant's steel turbine, he animatedly describes the hurdles overcome during construction: "We hit an underground gas line. I was over budget. I was getting killed." But it got done.

For all his hard work, however, Schendler began to feel a creeping disappointment. Combined, the hydro and solar projects eventually will generate less than 1% of the company's power needs. His colleagues felt they were stretching to accommodate him, but Schendler knew he was coming up short. Seeking to make an industry-leading gesture, he decided in 2005 to explore renewable energy credits.

Introduced at the beginning of the decade, RECs are supposed to marshal market forces behind wind and solar power. Developers of clean energy sell RECs, usually measured in megawatt hours of electricity, to buyers that want to counterbalance their pollution by funding environmentally friendly power. But often the REC trade seems like little more than the buying and selling of bragging rights, rather than incentives that lead to the construction of wind turbines or solar panels.

Schendler knew that RECs and similar financial transactions were swiftly growing in popularity, as more companies sought green credibility and REC brokers proliferated. He persuaded his superiors in 2006 to spend $42,000 a year, a 2% premium on the company's energy costs, to buy RECs at roughly $2 a megawatt hour. According to commonly accepted REC principles, this investment, less than a third of what it took to build the hydro plant, permitted Aspen Skiing to claim that it had offset all of its use of coal-burning energy.

Colleagues heaped praise on Schendler. In a press release, Pat O'Donnell, then the company's CEO, said: "This purchase represents our guiding principles in action." Accolades arrived from the EPA; local newspapers reported the feat. "It was seen as one of my biggest wins ever," Schendler says.

He spent hours thinking about how to describe the purchase of RECs for marketing purposes. The formulation he came up with was that Aspen Skiing had offset "100% of our electricity use with wind energy credits, keeping a million pounds of pollution out of the air." This wording was plastered on ski lifts, advertising brochures, and countless company e-mails.

But even as he helped launch this campaign, Schendler had a queasy feeling. At some level, he suspected the credits weren't causing any new windmills to be built. They weren't literally offsetting anything. He felt torn. "I'm well aware of what is right and what works and what matters," he says. "I'm also aware of brand positioning. Part of my job is to maintain [Aspen Skiing's] leadership." His industry "was going to do this in a big way. One small resort in California already had, and we needed to move. My solace was the educational value of the move. The discussions it would cause would be valuable, even if the RECs were not."

His prediction proved accurate. In the year and a half since his RECs purchase, more than 50 other ski resorts have made similar buys. No fewer than 28 claim to be "100% wind powered." Enticed by inexpensive green claims, companies in other industries have been equally enthusiastic. The top 25 REC purchasers have bought the equivalent [illegible]illion megawatt hours this year, nearly quadruple the volume from 2005, the EPA says.

Rather than enjoying his role as an REC pioneer, Schendler felt increasingly anxious. In private, he pushed REC brokers for hard evidence that new wind capacity was being built. Their evasiveness gnawed at him. He asked veterans in the renewable energy field whether his marketing message was legitimate. "They laughed at me," he says.

The trouble stems from the basic economics of RECs. Credits purchased at $2 a megawatt hour, the price Aspen Skiing and many other corporations pay, logically can't have much effect. Wind developers receive about $51 per megawatt hour for the electricity they sell to utilities. They get another $20 in federal tax breaks, and the equivalent of up to $20 more in accelerated depreciation of their capital equipment. [illegible]any wind-power developers that stand to profit from RECs concede that producers making $91 a megawatt hour aren't going to expand production for another $2. [illegible]is price, they're not very meaningful for the developer," says John Calaway, chief development officer for U.S. wind power at Babcock & Brown, an investment bank that funds new wind projects. "It doesn't support building something that wouldn't otherwise be built."

BAFFLEMENT AND IRRITATION

Schendler isn't the only environmental executive aware of the problem. In 2006, Johnson & Johnson spent $1 million on credits it says are equivalent to 400,000 tons of emissions. Based on this purchase, the company claimed to have shrunk its contribution to global warming by 17% since 1990. The World Wildlife Fund and other environmental groups have praised J&J, and the EPA gave the company a Green Power award in 2006. Asked about the doubts surrounding RECs, Dennis Canavan, the company's senior director of global energy, concedes that the credits "aren't ideal." They don't really reduce J&J's pollution, he says, and he hopes the company eventually abandons them. Still, he insists that "somewhere along the line, RECs do encourage new projects." He adds: "For the time being, this is the system available to us to offset CO_2."

However, some companies employ more direct methods, like building substantial clean energy capacity themselves. In August, Jiminy Peak Mountain Resort in Hancock, Mass., turned on a new wind turbine standing 386 feet tall and capable of providing half of the resort's electricity. [illegible]oject took three years to complete and cost $4 million.

Many larger corporations, however, defend their lower-cost approach. Mark Buckley, vice-president of environmental affairs at Staples, defends RECs, saying they "have clearly sent the right signal to the market." His [illegible]rpart at PepsiCo (**PEP**
), Rob Schasel, agrees, adding, "Absolu[illegible], we're changing what's going into the atmosphere." Whole Foods Market (**WFMI**) declined to comment.

This spring Schendler concluded that he had to reverse course, persuade his employer to back away from the renewable energy credits he had endorsed just months earlier, and favor more meaningful green projects. His colleagues reacted with bafflement and irritation. "Auden, you are the most confusing human being I have ever encountered," senior marketing manager Steve Metcalf wrote in an e-mail in April. "You have placed on us the responsibility of getting the environment message out—your message—as a company-wide endeavor. We have responded to your bidding and environmental passion with a gusto on the verge of maniacal. As mentioned, you are confusing to the point of complete exhaustion."

Schendler replied: "Relax, brah. I enormously appreciate all the support.... We're on the edge of this thing, figuring it out. If it were simple and easy, someone would have done it already."

THE CONFLICTED CRITIC

The company will continue to buy RECs through at least 2008, when its current contract expires. Executives say they're reluctant to stop any sooner, because they don't want to appear to be backsliding on the environment when competitors claim to be entirely wind powered. The company still touts its RECs purchases in some marketing material.

Schendler, meanwhile, has become a prominent critic of RECs, a potentially confusing role, since his employer buys them. In an April letter to the Center for Resource Solutions, a nonprofit group in San Francisco that certifies credits, he said that RECs have as much effect on the development of new renewable-energy projects as would trading "rocks, IOUs, or pinecones." That statement, which inevitably whizzed around the Internet, stung some in the ski industry who interpreted it as an attack. Schendler's immediate boss, General Counsel Dave Bellack, has heard from competitors asking that he stifle Schendler. Bellack has declined.

Now simultaneously an insider and an outsider in corporate environmental circles, Schendler relishes the notoriety. "I don't think I'm seen as a team player in this industry," he says, "but I don't care. This issue is so much bigger than just the ski industry." In March he told the U.S. House Subcommittee on Energy and Mineral Resources that companies won't make serious progress without regulation of carbon emissions—a departure from his earlier faith that abundant, profitable green projects will transform the way business operate.

His former mentor Lovins says Schendler could find further cost-saving energy efficiencies with more support from his superiors. But this mind-set, Schendler warns, could influence companies to pursue exclusively projects with quick payoffs: "The idea that green is fun, it's easy, and it's profitable is dangerous. This is hard work. It's messy. It's not always profitable. And companies have to get off the mark and start actually doing stuff."

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