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Mandatory Carbon Reporting

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Background

Committed to cutting carbon emissions to 50% of 1990 levels by 2025 and 80% of 1990 levels by 2050, the UK is the first country to make reporting on emissions data within annual reports compulsory for certain companies. It is hoped that by forcing companies to report their emissions data, it will encourage them to make the reductions that will be necessary if the UK is to meet these climate targets.

Following a public consultation, in which making greenhouse gas emissions reporting mandatory was supported in the majority, the UK government announced that it would be bringing in the regulations in 2013. The plan is to review the first two years of reporting by quoted companies in 2015, after which the government will decide whether the requirement will be expanded to include all large companies in 2016.

DEFRA, the government department responsible for the regulations, has recently published a set of Environmental Reporting Guidelines which includes guidance on mandatory greenhouse gas reporting. It is the Financial Reporting Council, however, that is responsible for monitoring the compliance of a company's reports and so it is this body that will be enforcing the mandatory carbon reporting regulations.

The main theme of the requirements is transparency. Methodologies used to calculate greenhouse gas emissions must be stated and any excluded emissions must also be explained. One of the benefits of this transparency is the opportunity it will give to companies to prove to stakeholders that they are managing their emissions.

Who Does It Include?

Quoted companies are those that are UK incorporated and whose equity share capital is officially listed on the main market of the London Stock Exchange, or is listed in a European Economic Area, or is admitted to dealing on either the New York Stock Exchange or NASDAQ. There will be a total of 1,100 companies required to report. Public sector companies, SMEs and PLCs are all excluded from the requirements.

However, companies that do not fall under these new regulations may still choose to report their greenhouse gas emissions voluntarily. As well as having numerous benefits, such as enhancing brand image and increasing credibility with stakeholders, it may also be advantageous to be prepared in the likely event that it will become mandatory for more companies in the future.

What Do Companies Need To Do To Comply?

1. Find out what emissions they are responsible for

Companies must report the annual quantity of emissions for activities which they are responsible for including:

a. the combustion of fuel; and

b. the operation of any facility.

They must also report emissions arising from the purchase of electricity, heat, steam or cooling by the company for its own use. Reported emissions must include all 6 Kyoto gases, reported in tonnes of carbon dioxide equivalent.

- CO_2, carbon dioxide
- CH_4, methane
- N_2O, nitrous oxide
- HFCs, hydrofluorocarbons
- PFCs, perflurorocarbons
- SF_6, sulphur hexafluoride.

The regulations cover a company's global emissions, not just those in the UK, which means that emissions from all overseas operations need to be included. This could pose a challenge for many multinational companies that are currently not reporting global emissions as they will need to have sufficient systems in place for collecting data from all their global operations as well as needing to select the appropriate emission factors (average emission rate of greenhouse gas emissions for a given source).

2. Decide on which methodology to use

There is no prescribed methodology for the reporting of carbon numbers under these new regulations. However, ISO 14064 Part 1 (2006) is the established international methodology for calculating greenhouse gas emissions and is therefore recommended. Using this methodology will not only give credibility to greenhouse gas reporting, but it is also recognised across the globe. The GHG Protocol (Corporate Accounting and Reporting Standard) from the WRI/WBCSD is another standard that is recommended in the draft bill and also underpinned by ISO 14064-1.

Data from other regulatory reporting processes can be used such as:

- Climate Change Agreements
- The EU Emissions Trading Scheme
- The Carbon Reduction Commitment Energy Efficiency Scheme.

However, some of these regulatory schemes do not cover all the data that is required by the new Mandatory Carbon Reporting regulations. This will need to be checked and additional data collected and included if necessary.

There are a number of data sources that can be used to collect the necessary data. These might include:

- utility bills
- flight details
- fuel receipts
- meter readings
- mileage records
- weighbridge records

- material purchase invoices.

Although any methodology can be used, the guidance document indicates that included emissions will be those equivalent to scopes 1 and 2 of a carbon footprint. Examples of typical scope 1 and 2 emissions are listed below.

Scope 1 (Direct Emissions)

- combustion from boilers
- vehicle fuel
- refrigerants from air conditioning and refrigeration units.

Scope 2 (Indirect Emissions)

- purchased electricity for own use.

3. Choose an appropriate reporting period

Although not mandatory, companies should ideally report on emissions for the period that corresponds with their financial year. However, if an organisation decides to calculate emissions for a different 12 month period, this needs to be explained within the report.

Excluding the first mandatory reporting year, repeat emissions data from the previous year's report must be included alongside emissions data from the present year. Therefore, after year one, companies will be reporting present year emissions as well as the prior year's emissions.

The company's previous year's emissions can be recalculated if the company structure has gone through any major changes. It is not mandatory to do this but, if a company does decide to go down this route, it must be clear that this has been done within the report.

4. Decide on an Intensity ratio

The total emissions must be expressed as an intensity ratio or ratios. A company is free to decide what intensity ratio they want to use and some examples include:

- emissions per £m turnover
- emissions per employee
- emissions per m^2 floor space
- emissions per unit

The use of an intensity ratio puts the emission figure into context and allows comparisons to be made against other similar organisations. At least one intensity ratio must be used for a company's total emissions, but extra intensity ratios can be reported for parts of the company. The decision over which intensity ratio to use should be taken carefully to ensure it is relevant to the company.

5. Check and Report Emissions

Once emissions have been calculated using an appropriate methodology and an intensity ratio has been applied, it is best practice to get data verified by a greenhouse gas auditor prior to reporting it in the company's annual report. A greenhouse gas auditor will be able to check compliance with the legislation in terms of the scope and boundaries against the methodology that has been used. They will also check that the emission factors are correct, the calculations are sound and the source data has been correctly collected. Once the numbers have been checked they can go into the annual report where they will be signed off by the company's Director and a financial auditor.

What Are the Timescales for Reporting?

The requirement comes into place for company reporting years ending on or after 30 September 2013. This is referring to the year-end date rather than the date that the annual report is published. This may mean for some companies that they will be required to report on emissions that occurred before the regulations came into place. If this is the case, companies can either provide an estimation by extrapolating data that they do have or by using generic data. The methodology used to provide this estimation must be disclosed. Alternatively, the company can provide an explanation of why the data is unavailable.

What Are the Benefits of Getting Third Party Verification?

Although there is no requirement under the regulations to gain independent verification of emissions data, it is still recommended in line with best practice. Independent verification will ensure the data reported is accurate and reliable. Investors and other interested parties are likely to scrutinise the greenhouse gas numbers published in annual reports and so having them verified will give the data extra credibility.

There are risks associated with not obtaining verification, which could result in charges of 'greenwash' – something which most companies will be keen to avoid. Getting the numbers wrong could seriously damage investors' confidence and is likely to harm a company's reputation. Using a greenhouse gas auditor to verify the emissions data will reduce this risk and put directors' minds at rest. Using a greenhouse gas verifier to carry out this verification ensures that they will be familiar and experienced when it comes to the schemes, methodologies and standards.

How Can Reporting Carbon Emissions Help A Company?

Whether voluntary or mandatory, the process of calculating carbon emissions can help companies begin to manage their emissions and eventually work towards reducing them. This in turn will reduce a company's impact on the environment as well as increasing efficiency and reducing any unnecessary costs. Managing emissions can also provide a business with an understanding of the risks and opportunities associated with climate change and the potential new market opportunities that may be out there.

Reporting emissions in a transparent manner, particularly if they have been verified by a third party, will increase credibility with stakeholders. This level of transparency with investors, clients and the general public will enhance the company's reputation and brand image. The credibility of the data will allow investors to make fully informed decisions and give preference to companies with lower emissions.

Summary

To some companies, Mandatory Carbon Reporting seems yet another hoop to jump through. Those companies that embrace the new regulations though are sure to find benefits in accuracy, credibility and brand reputation. As the government, companies and the environment witness the advantages of reporting emissions data, it can only be a matter of time before the regulations are extended to other companies.

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