Department for Business, Energy & Industrial Strategy

Streamlined Energy & Carbon Reporting

Agenda-9 November 2017

10.00-Registration
10.30-10.40-Senior official introduction- Michael Rutter
10.40-11.10-Presentation on the main consultation proposals and timeline- Gary Shanahan
11.10-11.20-Overview of the Impact Assessment- Sami Gllogani
11.20-11.50-Q&A- To be followed with instructions for the breakout sessions
11.50-12.20-BREAK OUT SESSIONS and report back
12.20-12.35-Final Q&A from break out
12.40-Close

Department for
Business, Energy
& Industrial Strategy

STREAMLINED ENERGY & CARBON REPORTING

raising awareness, reducing bills, saving carbon

November 2017

Department for Business, Energy & Industrial Strategy

You've told us the policy landscape needs to be simplified

Climate Change Levy (CCL)	• Business and public sector consumers (excluding small energy users) • Electricity, gas, liquefied petroleum gas and coal (& other solid fuel) rates • Calculated by suppliers and charged through energy bill
Climate Change Agreements (CCAs)	• Significant CCL discount for 53 energy intensive sectors in exchange for energy efficiency targets
CRC energy efficiency scheme	• Business and public sector energy users using over 6GWh qualifying electricity • Participants required to monitor and report their energy use & buy allowances for every tonne of CO_2 emissions, which are published
Reporting / measurement	• Many different schemes & different requirements - CRC, CCAs, ESOS, MGHG, EU ETS,

Department for
Business, Energy
& Industrial Strategy

but….

mandatory reporting is important in driving uptake of low carbon and energy efficiency measures, particularly at Board level

Department for Business, Energy & Industrial Strategy

2016 post-consultation announcements

To **simplify the landscape and drive business energy efficiency** the government will:

- abolish the CRC energy efficiency scheme, after 18/19 compliance year, working with devolved administrations on closure arrangements
- increase the Climate Change Levy (CCL) to recover the revenue from abolishing the CRC in a fiscally-neutral reform.
- rebalance CCL rates for different fuel types to reflect recent data on the fuel mix used in electricity generation
- **consult on a simplified energy and carbon reporting framework**
- keep existing Climate Change Agreement (CCA) scheme eligibility criteria in place until at least 2023, and resume Target Review
- Increase the CCA discount so that sectors with CCAs pay no more than an RPI increase

Department for Business, Energy & Industrial Strategy

Rationale & evidence

There are potential **savings of over £2 billion per year on business energy bills** from cost effective measures in buildings and business processes.

Measurement and reporting can lead to organisations investing in energy efficiency, thereby reducing their energy costs, with security of supply and carbon reduction as significant additional benefits.

- many companies still view energy as a fixed cost
- measurement and reporting raises the profile of energy efficiency with organisations' decision-makers, and is fundamental to any programme of improvement.
- many energy efficiency investments offer excellent rates of return and quick wins
- public disclosure, particularly of emissions, can provide a reputational advantage and provide incentives
- providing more standardised energy and emissions information to market actors helps to overcome the market failure of incomplete information
- transparency increasingly informs investment decisions, drives competition, and provides an opportunity for businesses to celebrate action and achievements, whilst enabling consumers to make informed choices.
- disclosed information can also inform the development of future government policy on energy efficiency.

Department for Business, Energy & Industrial Strategy

The year of the (un)expected!

Department for Business, Energy & Industrial Strategy

Taskforce on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosures (TCFD) worked with a wide range of industry and finance representatives to develop recommendations for voluntary, 'decision-useful', climate-related disclosures to be made as part of mainstream financial filings. The TCFD's research shows that disclosures will promote Board and senior management engagement on climate-related issues.

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Objectives

To deliver reforms that simplify reporting policy and deliver increased and more consistent disclosure of energy and carbon data to:

- reduce bills through action on energy efficiency to deliver affordable energy and support the growth agenda and the shift to a low carbon economy
- reduce the administrative burdens of compliance when compared with the current landscape
- raise awareness of energy efficiency, and improve transparency for investors
- provide the market with useful information

Department for Business, Energy & Industrial Strategy

Streamlined Energy & Carbon Reporting: Summary of consultation proposals

Continue to require **all UK quoted companies** to report on **global GHG emissions** and **intensity metric** in **annual reports**, plus total underlying **energy use**

Require **certain unquoted companies** to include within **annual reports**:

- **UK energy use** and associated **emissions** (as a minimum)
- **intensity metric** (chosen by companies)

UK energy use = **electricity, gas & transport** (as a minimum)

Interested in exploring:

- which companies are in scope?
  - **use energy use threshold** (CRC)?
  - or (more simply) apply to **all large companies** (ESOS approach)?
- **reporting elements that could drive more action** e.g.
  - identified energy savings opportunities
  - energy efficiency action taken
  - electronic reporting – making reported data more accessible

Department for Business, Energy & Industrial Strategy

Quantified options in the impact assessment

	Option 1	Option 2	Option 3	Option 4
Scope of new reporting framework:	n/a	Companies using >6 GWh of electricity p.a. (4,000 individual large organisations)	Large* companies (9,100 individual large organisations)	Large* companies (9,100 individual large organisations)
What information is reported:				
Onsite energy use (UK only)		Electricity & Gas	Electricity & Gas	Electricity & Gas
Transport energy use (UK only)		✓	✓	✓
Emissions from UK energy use		✓	✓	✓
Intensity metric	Via MGHG reporting	✓	✓	✓
Global GHG emissions (quoted companies only)	Via MGHG reporting	✓	✓	✓
Global total energy use (quoted companies only)		✓	✓	✓
Scale of, and progress against, energy efficiency opportunities				✓

* ‘Large’ in Options 3 & 4 in this table has the meaning given to it in ESOS

Department for Business, Energy & Industrial Strategy

Key parts of the consultation

Proposals:

- UK-wide?
- How will information be reported?
  - Annual reports, electronic?
- Who should report?
  - Large companies or energy threshold?
- What should be reported?
  - Energy, emissions, intensity metric, other information?

Guidance and supporting TCFD recommendations

Complementary policies

Views & evidence for the future

Department for Business, Energy & Industrial Strategy

Geographical scope?

1. The ambition is that the simplified energy and carbon reporting framework, like the CRC, will be **UK-wide**.

The UK government and Devolved Administrations are committed to working together to deliver the best outcome for businesses and the environment across the UK.

We will be consulting Devolved Ministers before making final policy decisions for the proposed reforms to energy and carbon reporting.

Will also inform decisions by the Devolved Administrations on their approach on CRC closure.

Department for Business, Energy & Industrial Strategy

How will information be reported?

2. Companies will be required to include the proposed information within their **annual reports**, which shareholders can request, and are filed with and made available by Companies House.

Energy and carbon reporting to Companies House should be **electronic**.

Government proposes to **collate this data** to increase its usefulness, and facilitating ease of access – e.g. via a central report or tool

It might be most appropriate to require energy and carbon reporting in a bespoke report within the annual reporting framework, given digital filing is not currently mandatory for Directors' reports or Strategic reports.

Are there synergies with mandatory reporting under The Non-Financial Reporting Directive of business specific disclosures on environmental, employee, social and community, respect for human rights and anti-corruption and bribery matters.

It is **not** proposed here that digital filing of all the current content of annual reports would become mandatory – only the energy and carbon reporting element of annual reports is proposed to be done electronically.

Department for Business, Energy & Industrial Strategy

Who should report?

3. Reporting will remain mandatory for all UK quoted companies, and become mandatory for either:

A) **all 'large'** UK companies formed and registered under the Companies Act 2006 and their corporate groups

B) UK companies who use more than **6GWh of qualifying electricity** in a year, or

C) UK companies who use a **different energy use threshold**

Small companies and groups would potentially be exempt even if they met the 6GWh threshold.

Organisations outside the scope of mandatory reporting are encouraged to participate voluntarily.

Should reporting requirements also apply to Limited Liability Partnerships?

Definitions of 'large'

Framework	Definition of 'large'
Companies Act 2006	Where two or more of the following criteria apply to a company within a financial year: • More than 250 employees • Annual turnover greater than £36m • Annual balance sheet total greater than £18m There are 'smoothing provisions' which apply where a company crosses over the size threshold, a change must persist for two years to have an effect on the company's classification. These thresholds are set out in sections 465 and 466 of the Companies Act 2006 and are updated from time to time. At group level the financial thresholds are on an aggregate basis.
ESOS as used in the IA, unless otherwise stated	Undertakings: i) which employ an average of 250 or more people in a certain 12 month period, or an annual turnover in excess of €50m and an annual balance sheet total in excess of €43m, and ii) where undertakings do not satisfy the specified employee or financial thresholds, but are either the UK parent of a 'large' undertaking, or a UK subsidiary of a 'large' UK undertaking, or a UK subsidiary of a parent who has a 'large' subsidiary. Derived from the requirements of Article 8 of the Energy Efficiency Directive. 'Smoothing provisions' also apply.

Department for Business, Energy & Industrial Strategy

Who should report? (cont’d)

- The ‘large’ threshold may be simplest, as it is a concept within the Companies Act, and would align broadly with the ESOS approach.
- Might be best if the Companies Act definition was used.
- However, it would bring in new companies not currently in CRC.
- An energy use threshold would target bigger energy using companies and so emitters, but the CRC approach – including CCA and EU ETS exemptions etc – is complex.
- Other thresholds could be a simple 6GWh across all energy products, or e.g. 500MWh for each of electricity, gas and transport.

What should be reported?

4. UK quoted companies – continued annual reporting of global Scope 1 & 2 GHG emissions and an intensity metric, with the **addition of reporting on total global energy use** across all energy types. Scope 3 reporting would remain voluntary.

5. UK unquoted companies – energy use and associated emissions will be reported, and scope should be restricted to (i) electricity, (ii) gas and (iii) energy used for transport.

6. Unquoted UK companies – also report an intensity metric.

Should the government:

a) mandate the use of specific intensity metrics by sector
b) propose best practice in any guidance; or
c) leave the matter to sectors, and to existing best practice and guidance?

Department for
Business, Energy
& Industrial Strategy

Scope 1,2,3 GHG Emissions:

Scope 1 (Direct emissions): Emissions from activities owned or controlled by your organisation that release emissions into the atmosphere. They are direct emissions. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, furnaces, vehicles; emissions from chemical production in owned or controlled process equipment.

Scope 2 (Energy indirect): Emissions released into the atmosphere associated with your consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of your organisation's activities but which occur at sources you do not own or control.

Scope 3 (Other indirect): Emissions that are a consequence of your actions, which occur at sources which you do not own or control and which are not classed as Scope 2 emissions. Examples of Scope 3 emissions are business travel by means not owned or controlled by your organisation, waste disposal which is not owned or controlled, or purchased materials or fuels.

Example intensity ratios

- Tonnes of CO_{2e} per total £m sales revenue
- Tonnes of CO_{2e} per total £m EBITDA
- Tonnes of CO_{2e} per square metre of gross store area
- Tonnes of CO_{2e} per £ million of income
- Tonnes of CO_{2e} per total million tonnes of production
- Tonnes of CO_{2e} per total square metres

What should be reported? (cont'd)

Should it be mandatory to include from the most recent e.g. ESOS audit (including energy management systems such as ISO50001)

i) any identified energy savings opportunities?

ii) any energy efficiency action taken?

Should any of the TCFD recommended voluntary disclosures become mandatory disclosures within companies' annual reports in the long-term?

What support could government provide to support uptake of TCFD disclosures?

Reporting of what other complementary information would add most value for businesses, the market and other stakeholders?

Department for Business, Energy & Industrial Strategy

Guidance

Consider whether current GHG reporting guidance might be revised from 2019.

Consider whether any further or updated guidance on GHG reporting aspects would be needed given the availability of extensive international GHG reporting guidance/standards

> GHG Protocol, ISO14064-1 49, PAS 2050, CDP, Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council and the Sustainability Accounting Standards Board

Consider what guidance, templates, might be needed for any requirements to report on energy, energy efficiency opportunities and actions, any other complementary information.

Consider organisations that want to participate voluntarily in preparing any future guidance.

Department for Business, Energy & Industrial Strategy

Complementary policies

Reporting is most effective when coupled with other policy approaches e.g. price signals, incentives and standards.

What complementary policy approaches can work with reporting to drive cost effective energy efficiency improvements, reduce bills, reduce emissions, and improve transparency for investors so they are more able to hold companies to account?

We are in particularly interested to hear about any implications of potential complementary policy approaches for the design of an energy and carbon reporting scheme.

Is there a role for voluntary schemes?

Department for Business, Energy & Industrial Strategy

Views & evidence for the future

2019 reforms could be built upon or replaced to create a still better regime. We welcome views and evidence on whether such enhancements would be a good idea. A future alternative approach to reporting solely within existing systems and processes to Companies House would be to:

- use a central IT portal through which businesses would report their energy and carbon data, **and**
- have a single central energy and carbon data set published, **and**
- introduce administrative and regulatory functions to assure the integrity of the data submitted, and companies' compliance.

However, it is not proposed that all these arrangements would feature in the immediate reforms of the reporting landscape to apply from 2019.

Department for Business, Energy & Industrial Strategy

Leading in the Public Sector

Policies and proposals in the Clean Growth Strategy

- introduce a voluntary wider public and higher education sector target of a 30% reduction in GHG by 2020/21(from 2009/10)
- agree higher targets for central government by 2020 and actions to further reduce greenhouse gas emissions beyond this date
- access to finance for energy efficiency currently £210m and will rise to £385m by 2020.
- supporting access to Energy Performance Contracts in the public sector

Seeking views by 7 December on:

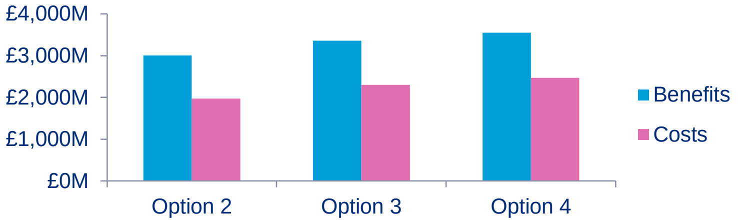
- action required to address barriers and deliver an ambitious decarbonisation programme across the public and higher education sectors, in England over the next 10 years and;

Impact Assessment: Overview

Department for Business, Energy & Industrial Strategy

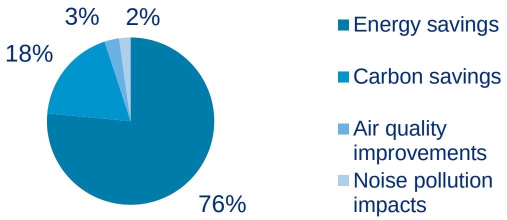
Overview of policy packages:

NPV of combined policy packages (2016 PV £m)



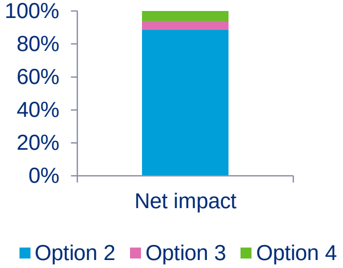
Net Present Value (NPV)	£1,034M	£1,057M	£1,081M

Distribution of benefits*



**no significant change across options*

Net incremental impact of SECR framework



All the policy options present are societally beneficial, with Option 2 representing a 55% improvement in NPV over Option 1 (under which SECR is not introduced). The increase in benefits and costs as we move across options 2-4 demonstrates the trade-off between energy savings and administrative burdens. Whilst estimated energy savings increase with scope, the distribution of benefits remains unchanged.

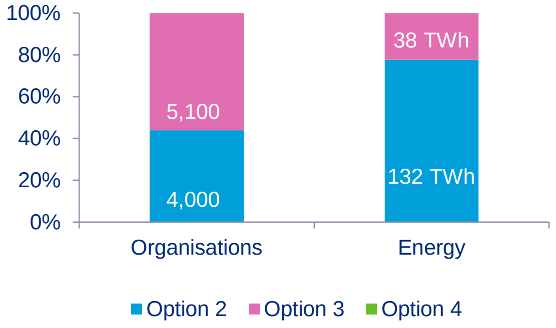
Looking at the incremental net benefits of only the reporting component gives an idea of how increasing the scope of reporting impacts the NPV of each option. Here we see that the majority of benefits accrue from moving from no reporting framework to the one defined in Option 2.

Department for Business, Energy & Industrial Strategy

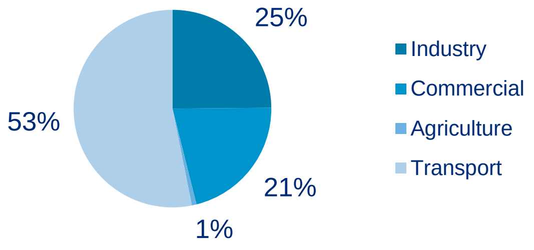
Impact Assessment: Introduction of SECR

Incremental scope of SECR framework:

Incremental scope of SECR options

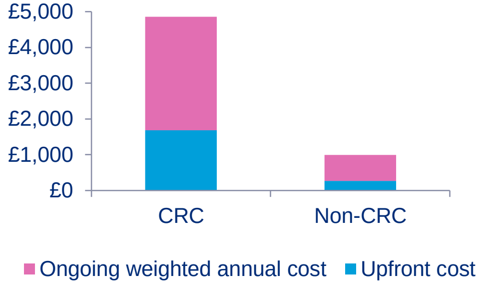


Distribution of energy use in scope of SECR (Options 3-4)*



**results see little change across options*

Annual admin burdens by organisation type



Option 2 captures 44% of organisations compared to the broader scope (Options 3-4), however this represents 78% of energy use under the broader scope, owing to the fact that energy intensive organisations likely to already fall under the Option 2 definition. Under all options the distribution of energy use to be reported on sees no significant change and therefore does not impact resulting burdens or their distribution across industries.

Moving from the definition of Option 2 to that of Options 3-4 more than doubles the number of organisations in scope, however due to differences in organisation type the impact on administrative burdens is not proportional.

Department for Business, Energy & Industrial Strategy

Impact Assessment: Assumptions

Assumptions underlying SECR framework impacts:

Assumptions	Description	Estimates: Lower	Estimates: Central	Estimates: Upper	Sources
Energy savings	The proportion of energy savings resulting from reporting on energy use (for new reporters).	2%	4%	8%	- Lower: Literature review - Central: Various - Upper: CRC evaluation
Overlaps with ESOS	Proportion of energy use already reported under ESOS	75%	50%	25%	- ESOS IA - Illustrative
Transport energy reporting burdens	The admin burden from reporting transport energy use	25% of the burdens for onsite energy use			- ESOS IA - Stakeholders
Overlaps for transport energy	The overlaps with existing policies for transport energy	Aviation, rail & shipping:100% LGVs & HGVs: 50% Buses & Coaches: 50% Company cars: 0%			- ESOS IA
Energy efficiency opportunity reporting burden	The admin burden from reporting energy efficiency opportunities (Option 4)	£270 p/a			- ESOS IA
Admin burdens for non-CRC organisations	The average admin burden for non-CRC organisations (Options 3-4)	£700 per business			- ND-NEED - CRC data
Energy in scope	The total energy per annum in scope of SECR	132-170 TWh p/a			- ND-NEED - DfT
Impact of reporting on efficiency opportunities	The impact on energy savings of requiring firms to also report on energy efficiency opportunities	Increase in assumed energy savings of 10%			- Illustrative

Department for Business, Energy & Industrial Strategy

Impact Assessment: Workshop

We will be hosting a workshop to discuss the SECR impact assessment. This will give participants a chance to put forward their views on the SECR IA and to discuss in further detail the evidence and assumptions underlying the impacts of the policy options.

Friday 1st December (10-1pm)

Please visit the SECR Gov.uk page for further details or email reporting@beis.gov.uk

We also welcome any additional evidence from participants on the costs and benefits of our proposals.

Department for Business, Energy & Industrial Strategy

Breakout Sessions

How will information be reported?

1. Do you agree that reporting should be done through annual reports? If yes which would be better suited? Directors, Strategic or a new bespoke report?
2. Do you agree that from 2019 energy and carbon reporting to Companies House should be electronic?

Who should report?

1. Do you think that the policy should apply to:
A) all ‘large’ companies based on employee numbers and financial tests;
B)companies who meet the 6GWh ex-CRC annual electricity use threshold described; or C) another threshold?
2. If you prefer Population Approach A (all ‘large’ companies) which of the proposed company size definitions seems the most appropriate to you: A)Companies Act 2006 B)ESOS, or C) Any Others
3. Should reporting requirements within the Companies Act regime also apply to Limited Liability Partnerships (LLPs)?

What should be reported?

1. Do you agree that only electricity, gas and transport energy should be in scope for unquoted companies?
2. Do you agree that UK unquoted companies should report on a)total UK energy use b)Scope 1&2 GHG emissions and c) an intensity metric
3. UK quoted companies – continued annual reporting of global Scope 1 & 2 GHG emissions and an intensity metric, with the addition of reporting on total global energy use across all energy types. Scope 3 reporting would remain voluntary.