



**CARBON**  
M A S T E R S

# Mandatory Carbon Reporting

## Part 2: Response to Draft Regulations

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## Carbon Masters response to DEFRA’s consultation on Mandatory GHG Reporting

Carbon Masters welcome the introduction of Mandatory Greenhouse Gas (GHG) Reporting. We believe this commendable Government Initiative will enhance the value of Director’s Reports and could help to engender a new mindset where a company’s financial success is evaluated alongside its carbon performance. In this briefing paper we have highlighted some of the key features of the draft regulations and shared our opinions and responses to the consultation. For a more comprehensive introduction to Mandatory GHG Reporting, you can download our first briefing paper [here](#).

### Timing

The draft regulations do not currently stipulate when the legislation will come into effect. However, DEFRA have suggested two options in their guidance document:

**Option 1:** regulations will come into force for reporting years that end after **6<sup>th</sup> April 2013** – this option is in line with the original ministerial announcement.

**Option 2:** regulations will come into force for reporting years ending after **30<sup>th</sup> October 2013** – this is when the revised BIS narrative reporting framework also comes into effect.

Carbon Masters believe that Option 2 could lead to a small reduction in the administrative burden for some of the companies affected. In particular, companies whose reporting year ends between 6<sup>th</sup> April and 30<sup>th</sup> October would not need to change the structure and content of their report two years in a row but could respond to two sets of regulations (BIS and carbon reporting) at the same time.

### GHG Emissions Coverage

The draft regulations cover all six Greenhouse Gases (GHGs) as defined in the UK Climate Change Act and require companies to measure GHG emissions annually in tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). Companies are required to measure emissions from four main categories:

(1) the combustion of fuel in any premises,

machinery or equipment operated, owned or controlled by the company;

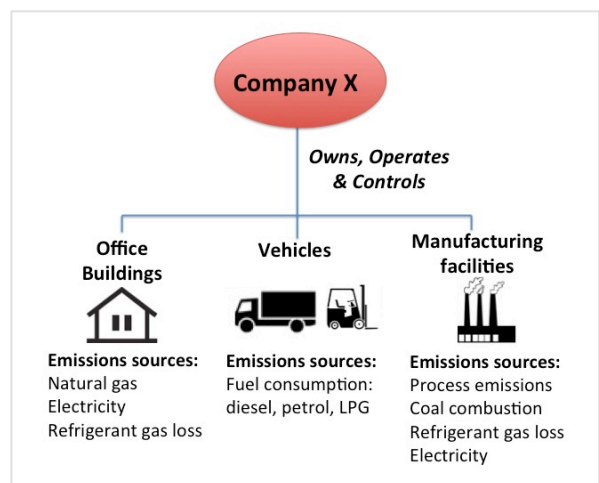
(2) the use of any means of transport, machinery or equipment operated, owned or controlled by the company;

(3) the operation or control of any manufacturing process undertaken by the company.

(4) the leakage or other escape of emissions from any of the above.

Figure 1 gives an example of the emissions sources a company may be required to report under the draft regulations:

Figure 1. Emissions Coverage



Depending on how the draft regulations are interpreted, the emissions coverage required could be potentially far wider than many companies are currently reporting. The phrase ‘owned, operated or controlled’ suggests to us that companies must report emissions from *assets they own, assets they operate* and *assets they control*. Companies who already follow the GHG Protocol Corporate Standard or ISO 14064 (part 1) are unlikely to report this widely. These reporting standards encourage companies to use **either** an ‘equity share approach’ (where a company accounts for emissions from operations according to its share of equity in the operation) **or** a control approach (where a company accounts for 100% of the GHG emissions from operations over which it has control). The draft regulations hint at a combined approach. We believe this is an area which could do with further clarity. For more information on this issue, our software partners Ecometrica have

explained this in detail in their consultation response, which can be downloaded [here](#).

Carbon Masters are pleased to learn that the regulations cover six Greenhouse Gases, not just carbon dioxide. We also support the inclusion of fugitive emissions, such as refrigerant gas loss from cooling systems. Although the leakage of refrigerant gases is typically quite low, these gases are widely used in air conditioning, refrigerators and other cooling systems and they can be very potent with a Global Warming Potential up to 14,800 greater than that of CO<sub>2</sub>.

Carbon Masters agree with the initial exclusion of Scope 3 emissions (these are indirect emission sources such as waste disposal, water use and business travel). This should make it easier for companies who have not previously measured their GHG emissions to get to grips with carbon reporting before having to grapple with the complexities of Scope 3 reporting. However, longer term we would like to see Scope 3 emissions sources included in the regulations.

## Methodology

The draft regulations give freedom to quoted companies to choose which methodology they use to measure their GHG emissions. However, companies are required to state their choice of methodology.

Carbon Masters believe that offering this flexibility should help minimise disruption for companies that are already measuring their GHG emissions. The drawback is that carbon emissions data from different companies may not be comparable and will therefore be of limited use to investors and interested parties. There is also a small risk that inappropriate calculation methodologies could be chosen, or that long term results could be manipulated by changing the methodology each year. The requirement for companies to transparently state which methodology has been used should, however, help to mitigate against these risks.

## Overlap with other reporting obligations

The draft regulations require companies to state if relevant information in the Director's report has been obtained as a result of compliance with other reporting obligations, specifically the EU Emissions Trading Scheme (EU ETS), the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme and the Climate Change Agreements. The consultation document explains that this requirement is designed to '*reduce regulatory burden*' for companies included in these other schemes, who will now be able to use the same information to meet various obligations.

Carbon Masters believe that there are a couple of potential issues with this:

**1. Emissions factors** – for CRC, EU ETS and CCA carbon emission data is calculated using emissions factors which only include CO<sub>2</sub> and not any of the other five Greenhouse Gases. In order to meet the Mandatory Reporting regulations, companies would therefore need to recalculate their emissions data using different emissions factor sets.

**2. Boundary confusion** – CRC, EU ETS and CCA only cover a limited proportion of the emissions that most companies would be required to report in their Director's Report – e.g. none of the current schemes cover transport or fugitive emissions and CRC only covers emissions from 'owned' buildings not leased ones. Without further guidance, there is a risk that the different reporting boundaries for each of the schemes could increase confusion amongst companies affected by multiple reporting obligations.

Unless these issues are resolved, Carbon Masters believe that this part of the regulation may not meet its stated objective of reducing regulatory burden.

## Carbon Intensity Ratios

Under the draft regulations, a directors' report '*must state a ratio which expresses a company's annual emissions in relation to a quantifiable factor associated with the company's activities*'. Carbon Masters agree that an intensity ratio is a useful concept and have worked with companies

that have used intensity ratios as an effective measure of long-term carbon performance. We believe that further guidance is required to ensure that relevant and appropriate metrics are chosen for intensity ratios.

### First Reporting Year

The draft regulations require that *'A directors' report must repeat the relevant information disclosed in its first reporting year in every subsequent directors' report.'* The regulations also state that if information for the first reporting year has been re-calculated or the assessment period has changed, companies must state this transparently.

Carbon Masters agree with the principle of restating information from the 'first reporting' or baseline year in subsequent years. We view this as a means of encouraging carbon emission reduction. Stakeholders will be able to view from the reports what progress, if any, has been made in reducing carbon emissions since the first reporting year. We agree that to encourage transparency companies should clearly state when a baseline year has been recalculated – ideally we would like to see the regulations go a little further to state which methodology and emissions factors have been used to recalculate the company's emissions.

### Review

The draft regulations require a review to be carried out within five years of the regulations coming into effect. The consultation document also states that it will be decided by 2016 whether to extend the legislation to all large companies. Carbon Masters fully support the intention to carry out comprehensive review. As well as measuring the extent to which the objectives of the regulation have been met, we believe the review should cover an analysis of:

- the reporting methodology and emissions factors used by companies to meet the requirements of the legislation
- the advantages and disadvantages of introducing a standard methodology for all companies to adhere to
- benefits and costs of the regulations to companies

### About Us

**Carbon Masters** is a carbon management consultancy based in Edinburgh. Our mission is to assist companies to measure, manage, reduce and report their carbon emissions. We have carried out GHG assessments with a wide range of clients internationally including steel manufacturers, pharmaceutical companies, airports and banks. Our unique industry-leading software platform **Carbon Guru for Organisations** leverages a cloud based computing platform to provide a timely and accurate assessment of an organisation's GHG emissions across different departments, divisions and countries.

### Next Steps

Carbon Masters have prepared this briefing paper in response to DEFRA's invitation for views on the draft regulations. If you are interested in learning more about the legislation or have any feedback on this briefing, please get in contact as we would like to hear from you.

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