



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

# Mandatory Carbon Reporting

## Part 1: Key Considerations for Companies

---

August 2012

Prepared by Carbon Masters Ltd. Registered in Scotland No. SC361341.  
+44 (0)131 472 4818 | [info@carbonmasters.co.uk](mailto:info@carbonmasters.co.uk) | [www.carbonmasters.co.uk](http://www.carbonmasters.co.uk)



The UK Government recently announced its intention to bring forward legislation to make it compulsory for large companies to measure and report their carbon footprint as part of their annual reports from April 2013. The measure announced by Deputy Prime Minister Nick Clegg at the recent Rio+20 conference will initially only apply to around 1,050 public companies that are listed on the main London Stock Exchange (LSE). However Clegg also said that the government would decide in 2015 whether to extend the requirement to all large companies, those with more than 250 employees, from 2016.

*In 2015 the government will review the regulations and decide whether to extend to all large companies (this could potentially bring a further 17,000 to 31,000 companies into the reporting regime).*

This briefing paper sets out some of the main considerations for companies affected by the forthcoming legislation:

### **1. Which companies will the regulations affect?**

The legislation is expected to cover all UK companies quoted on the main market of the London Stock Exchange (approximately 1,050 companies at the time of writing).

### **2. Will the regulations affect companies already covered by existing UK climate change legislation?**

Some UK companies quoted on the main London Stock Exchange are already required to report their emissions under other UK climate change legislation including the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, the EU Emissions Trading Scheme (EU ETS) and the Climate Change

Agreements (CCA). These companies will also be required to report under the new mandatory reporting guidelines. In order to reduce the regulatory burden, companies will be permitted to report the same data from their CRC, CCA and EU ETS submissions for mandatory reporting purposes provided that they transparently state that this is how the information was obtained.

### **3. Will companies be required to use an internationally recognised methodology to report their emissions?**

The draft regulations do not require a particular methodology or standard (such as the [GHG Protocol Corporate Standard](#)) to be used for reporting purposes. However, they do require that companies are transparent about which methodology has been used.

### **4. Will companies just report against their UK emissions?**

No. The reporting boundary will be the same boundary that they use for their current financial reporting. So companies that report their financials on a regional or global basis will have to report their carbon emissions on that same basis.

### **5. What emission sources will need to be measured and reported?**

Companies will be required to report on the following emissions sources:

#### **Scope 1 (direct emissions)**

- a) **Combustion of fuel** (natural gas, diesel, petrol, gas oil, coal, kerosene etc.), in any machinery owned, operated or by the company (e.g. boilers, furnaces, vehicles). This includes both fuel use in buildings and fuel use in vehicles.

b) **Process emissions** resulting from manufacturing processes such as chemical production

c) **Fugitive emissions** such as refrigerant gases.

**Scope 2 (indirect emissions):**

Emissions associated with a company's consumption of purchased electricity (and heat, steam and cooling).

It is unlikely that the regulations will include *Scope 3 (indirect emissions)* such as emissions covering staff commuting, business travel, waste, water, third party logistics. The government is likely to encourage companies to report these on a voluntary basis.

**6. What are process & fugitive emissions?**

Most companies currently do not report fugitive emissions from sources such as refrigerant gases in air-conditioning systems. Or indeed process emissions arising from certain manufacturing processes. As detailed above these are Scope 1 direct emission sources and are likely to be mandatory under the regulations.

**7. Will companies just have to report Carbon Dioxide (CO<sub>2</sub>) emissions?**

The regulations cover the 'basket of six' greenhouse gases (GHGs) as set out in the Kyoto Protocol: Carbon Dioxide (CO<sub>2</sub>), Methane (CH<sub>4</sub>), Nitrous Oxide (N<sub>2</sub>O), Hydrofluorocarbons HFCs, Perfluorocarbons (PFCs) and Sulphur Hexafluoride (SF<sub>6</sub>).

The resulting footprint will need be reported in terms of terms of Carbon Dioxide Equivalent (CO<sub>2</sub>e). This metric measures each of the six gases but reflects their individual global warming potential (GWP) e.g. Methane has a GWP of 25 so 1 tonne of Methane is equivalent to 25 tonnes of CO<sub>2</sub>.

**8. What conversion (emission factors) will companies who report across geographical boundaries need to use?**

Emission factors used to convert activity data (e.g. electricity consumption in kWh) to CO<sub>2</sub>e vary from country to country. It is unlikely that UK emission factors will be suitable for a company's non-UK operations e.g. for electricity where the mix of renewables is very different from country to country the GHG emissions that arise from it may be significantly different. The draft regulations do not currently state whether country-specific emission factors should be used.

**9. When is the first reporting year?**

Regulations are expected to come into force from April 2013. The first reporting year for GHG emissions will depend on the individual company's existing reporting years for financial statements and accounts.

**10. Will companies be required to state whether they have achieved carbon emission reductions?**

Companies are likely to be required to disclose their emissions from the first reporting year in every subsequent reporting year. This will effectively enable stakeholders to assess whether emissions reductions are being achieved against the base year. Companies will also be permitted to recalculate emissions from the first reporting year where the company structure has changed significantly in order to enable longer term comparisons.

**11. Will independent verification be required?**

GHG emissions will be reported in the directors' reports, therefore they will be

included in the scope of existing audit requirements. However, an independent verification of GHG data would provide an additional level of assurance for organisations.

### 12. When will further details be announced?

The government published draft regulations for consultation in late July 2012 which is followed by a twelve-week consultation period (ending 17<sup>th</sup> October 2012).

### 13. What should companies do now?

Our advice is to begin getting prepared by carrying out a GHG assessment across the current financial reporting boundary as soon as possible. This will identify data gaps and enable companies to establish robust processes and procedures to facilitate accurate, timely reporting once the regulations are finalised.

## How Carbon Masters Can Assist

**Carbon Masters** is a carbon management consultancy based at Edinburgh University. Our mission is to assist companies to measure, manage, reduce and report their carbon emissions.

We have deep carbon domain expertise based on having carried out GHG emission assessments with a wide range of clients internationally. Our unique industry-leading software platform **Carbon Guru** leverages a cloud based computing platform to provide timely accurate, assessments of an organisation's GHG emissions across departments, divisions and countries.

CEO Kevin Houston:

*" We very much welcome the UK Government's announcement that it will bring forward legislation on mandatory carbon reporting.*

*Mandatory reporting presents an opportunity to introduce real consistency and rigour to carbon reporting. At **Carbon Masters** we have the experience, domain expertise and industry-leading carbon footprint software solutions to assist those who will be affected by the legislation."*

#### Get in touch

For more information or to discuss how Carbon Masters can assist your company to get ready for mandatory carbon reporting. Please contact:

*Tom Gibbs*

*tom@carbonmasters.co.uk*

*Aphra Morrison*

*aphra@carbonmasters.co.uk*

#### Carbon Masters

Edinburgh Technology Transfer Centre  
The University of Edinburgh  
3rd Floor, Alrick Building  
King's Building, Edinburgh  
EH9 3JL

Tel: +44 (0) 131 472 4818

Email: [info@carbonmasters.co.uk](mailto:info@carbonmasters.co.uk)

Web: [www.carbonmasters.co.uk](http://www.carbonmasters.co.uk)