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Streamlined Energy and Carbon Reporting

Guidance

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SECR SUMMARY

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") implement the Government's new policy on Streamlined Energy and Carbon Reporting (SECR).

Under changes introduced by the 2018 Regulations, large unquoted companies and large LLPs are obliged to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports.

The proposed SECR framework objectives are to:

1. Reduce the overall administrative burdens on participants
2. Improve the incentive for organisations to save energy by improving energy efficiency in order to reduce energy bills and carbon emissions
3. Drive behaviour changes by raising awareness of energy efficiency with organisational decision makers
4. Boost the importance of energy efficiency in relation to the effect on an organisation's reputation
5. Increase transparency for investors and others so that companies can be held account

The CRC Scheme will be closed after the current 18/19 phase is laid before Parliament and this will likely increase the CCL to neutralise the financial affect.

SECR is a scheme targeting the private sector only. Many public sectors organisations such as local authorities, NHS Trusts and Universities will now no longer be required to submit their annual carbon emissions to a central register as per the CRC Scheme.

However, these organisations are still subject to the Emissions Reduction Pledge 2020. This is set of principles committing organisations to act in pursuit of the voluntary target set in the Clean Growth Strategy to reduce greenhouse gas emissions by 30% by 2020/21, compared to a 2009/10 baseline.

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Despite the soft nature of this current set up where organisations can currently choose to become involved and actively report back, there is a suggestion of a more ambitious and possibly mandatory target once this first reporting period has ended.

Secondly, the data to be reported will include transport which is not currently included in CRC. The scope of what is to be reported is much more closely in line with that of the Greenhouse Gas reporting that all UK listed companies have been required to complete since 2013.

Who needs to Report?

The following organisations need to report within the SECR Framework:

1. Quoted companies: i.e. those where equity share capital is listed on main market of LSE, officially listed in a European Economic Area, or admitted to dealing on either NYSE or NASDAQ.

   These companies will already be reporting on greenhouse gas emissions in their Directors' Report but will have some additional elements to include in this reporting following the introduction of SECR starting with Financial Years commencing on or after 1 April 2019.

2. Large unquoted companies and LLPs: i.e. those meeting 2 or more of the following criteria of large companies from Section 465-466 Companies Act 2006:

   >£36m turnover

   >£18m balance sheet total

   >249 employees in one year

This is to be re-evaluated on an annual basis, in order to account for changes in employee numbers and turnover, in accordance with other provisions made in the Companies Act 2006.

3. Qualifying UK registered subsidiaries of parent companies not registered in the UK

4. Public bodies which include limited company or LLP elements

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Exclusions

Exclusions within Group Level Reporting:

If the Directors' report / 'Energy and Carbon report' is prepared at a group level (i.e. the reporting is submitted to Companies House by an overall UK parent company), subsidiary companies that would not qualify for SECR in their own right, **are not required** to have their energy and carbon information included in this group report.

Similarly, a qualifying unquoted large company / LLP is not obliged to include energy and carbon information in their **individual** company accounts and reports if this information will be included within the higher group level Director's Report / 'Energy and Carbon report'.

This is different to ESOS, where subsidiary companies that do not meet the qualification criteria **individually are not exempt from the scheme**

Exclusions for Low Energy Users:

If 40MWh of energy or less is consumed within the period that is being reported on (i.e. financial year concluding on or after 31st March 2020), the organisation is not required to make a full disclosure of energy and carbon information. Instead, a statement should be included within the Directors' Report / Energy and Carbon Report, detailing that this is the reason for the non-disclosure.

If a group report is being prepared, this 40MWh threshold should be applied to the total energy consumption of each company meeting the 'large company' criteria within the group. Large companies not reaching this 40MWh consumption threshold in a group do not have to be included in the group reporting.

It is at the group's discretion as to whether to include emission figures for companies that would otherwise be excluded from the reporting, to provide a fuller picture of the group's activities, and also to align with financial information within the Directors' Report.

Materiality Exclusions:

There is not a de minimis for SECR defined in the regulations, however, companies are able to exclude some emissions that are deemed to be immaterial in the context of the organisation's operations and associated emissions. Materiality will vary depending on individual circumstance, however recommended best practice from BEIS is to ensure that omissions do not exceed 2-5% of overall emissions or energy. 2% has been highlighted as the optimum level of omission

What needs to be Reported?

A new Energy and Carbon section of the Directors' reports (for quoted and unquoted large companies), or (for large LLPs) inclusion of an 'Energy and Carbon Report' alongside the usual company accounts and reports is mandated for qualifying large companies and LLPs with a financial year concluding on or after 31st March 2020.

SECR mandates that all energy use and associated emissions that the reporting company are responsible for is reported on in the Directors' Report.

Within the reporting, there are certain elements that are required to be included. These differ between Quoted Companies, and Large Unquoted Companies/LLPs, and are as follows:

For Quoted Companies:

- GHG Protocol Scope 1 (direct emissions from owned or controlled sources) and Scope 2 (indirect emissions from the generation of purchased energy (as currently included)
- Preceding year's emission figures for energy use and GHG (as currently included)
- Methodology used (as currently included)
- Minimum of one intensity ratio (as currently included)
- Underlying global energy use (from year concluding on or after 31st March 2020) - this should also include a split of what is used/emitted in the UK and outside of the UK.
- Commentary on energy efficiency action taken (It is important to note that if you don't have these in place you will need to implement new structures and systems in order to do this).

For Unquoted Companies / LLPs:

- UK energy use in kWh (minimum of gas, electricity and transport)

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  - If reporting company is an offshore undertaking (i.e. activities consisting wholly or mainly of offshore activities, as defined in the 2018 Regulations), emissions and energy use for both UK **and** offshore operations must be disclosed
- Associated greenhouse gas emissions (tCO_2e)
- Preceding year's emissions and energy use figures and GHG Emissions (beginning in year 2)
- Methodology used
- Minimum of one intensity ratio
- Commentary on energy efficiency action taken (It is important to note that if you don't have these in place you will need to implement new structures and systems in order to do this).

How should they be Reported?

The report must show a figure **in kWh** of the energy consumed annually under the following areas:

- Activities relating to the combustion of **gas** (this includes combustion of delivered fuels such as propane, butane and LPG);
- Activities relating to the consumption of fuel for the purposes of **transport;**
- The purchase of **electricity** for which the company is responsible for, including for the purpose of transport.

Reporting under SECR should be included in the Annual Report compiled for Companies House. As these reports are not mandated to be submitted electronically, the Government view is that mandating electronic reporting for SECR would be against the aim of simplifying the reporting methods of this data. There is an option to submit SECR information electronically on an optional basis from 2019. Mandatory electronic submission of this information is being held as a long-term option by BEIS for the moment.

If the Directors' Report is a Group report covering a number of UK registered qualifying subsidiaries, the company or LLP must make the required statements on the basis of its information **and** its subsidiaries.

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There will also be some exemptions for disclosure of information should the Directors state that publication of this information will be seriously prejudicial to the interests of the company.

What are the Timeframes for Reporting?

For illustration purposes, for a company with a financial year beginning 1st April 2019, compliant documents for SECR are required to be included in the first set of accounts published following 31st March 2020.

For companies with a financial year beginning 1st January 2019, SECR compliant documents will be included in the first set of accounts published following the 31st December 2020.

Are there any Penalties for non-compliance?

As the information reported through this scheme is included in company Directors' Reports submitted to Companies House, it is anticipated that the Conduct Committee of the Financial Reporting Council will be responsible for monitoring compliance of the SECR information that will be included in company reports and accounts.

Should company reports not meet the reporting requirements, Companies House may reject the report submission, with a late filing penalty regime applying for non-compliance. The Conduct Committee also has authority to apply to the courts for an order requiring directors to prepare revised reporting / sets of accounts where it appears that the reporting requirements have not been met

We anticipate a transitional period which will require organisations who qualify to review and make changes to how they collect data, report and demonstrate energy efficiency changes. In our experience even companies large enough to have their own energy teams are seeking our support as there is a lot of ground to cover if you are starting from scratch to ensure they comply.

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Collecting your Energy use Data

When calculating total energy consumption, organisations must use verifiable data where reasonably practicable. You can collect your energy use data in one of the following ways:

- Obtain meter data (from supplier, Data Collector, Data Aggregator or energy systems provider). This is the preferred method of data collection. If system supplied meter data is not available, then manual readings can also be used
- Using invoices from suppliers
- Using annual statements from suppliers. If you have multiple supplies or multiple meters for the same site, then you should combine these as appropriate to best represent the configuration of that site (i.e. summate all import meters).

If verifiable data of energy use or spend cannot be obtained, organisations must use a reasonable estimate derived through calculation (based on other verifiable data, if possible), and show how estimates were made.

If a need arises for past energy use and emissions figures to be amended, the corrected figure should be presented alongside the original figure, with the rationale for the change. Where verifiable data is not available please contact Carbonbit to estimate the data.

Landlord / Tenant Reporting Responsibilities

In the case of landlord/tenant arrangements, the party responsible for the consumption of energy should take the responsibility for reporting of it under this legislation. This should include consumption of energy in rented serviced areas, where a tenant would report on energy consumption, despite not being directly responsible for its purchase, if information on energy consumption is available through sub-meters for example or provide estimates where information is not available.

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Reporting Renewable Energy

While explicit reporting on renewable energy and associated emissions is not a mandatory requirement under the SECR legislation, organisations are encouraged to use dual reporting if they wish to reflect their consumption of renewable energy.

Organisations are encouraged to use location-based grid average emission factors to report the emissions from electricity, including those consumed from the grid. Where available, time specific (e.g. hour-by-hour) grid average emission factors should be used in order to accurately reflect the timing of consumption and the carbon-intensity of the grid.

Where organisations have entered into contractual arrangements for renewable electricity, e.g. through Power Purchase Agreements or the separate purchase of Renewable Energy Guarantees of Origin (REGOs), or consumed renewable heat or transport certified through a Government Scheme and wish to reflect a reduced emission figure based on its purchase, this can be presented in the relevant report using a “market-based” reporting approach.

It is recommended that this is presented alongside the “location-based” grid-average figures and in doing so, you should also look to specify whether the renewable energy is additional, subsidised and supplied directly, including on-site generation, or through a third party.

A similar “dual reporting” approach should be taken for biogas and biomethane (including “green gas”). There are several ways these figures may be presented in reports.