Reporting, Monitoring, and Disclosure

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Energy Policy Insights

Briefing paper: Reporting, Monitoring and Disclosure

Contents

This AMP Clean Energy briefing paper outlines the policy landscape on industrial decarbonisation and focuses on hydrogen infrastructure development, reporting & monitoring, energy efficiency and emissions reduction measures. The paper provides key background information, a summary of overarching themes and upcoming policies that businesses need to be aware of to help shape their Net Zero strategy.

AMP Clean Energy is a distributed energy business focussed on net zero solutions to decarbonise heat and grid solutions which enable the growth of renewables. We provide businesses with fully funded low carbon solutions and typically invest between £100k to £25million per project. With 160 projects in our portfolio, we have been helping organisations to become more sustainable over the past 10 years.

https://www.ampcleanenergy.com/net-zero-funding

Introduction

Monitoring and reporting environmental impact is an increasingly important aspect of decarbonisation in the UK.

Since 2013, all quoted companies have been required to report on greenhouse gas (GHG) emissions as part of their annual Directors' Report. From 2019, these companies were also required to report on global energy use, and other large businesses have disclosed UK annual energy use and GHG emissions.

The latest development in the environmental reporting sphere came into effect on 6 April 2022, requiring over 1,300 of the largest UK-registered companies and financial institutions to disclose climate-related financial information on a mandatory basis in their annual report.

The Streamlined Energy & Carbon Reporting (SECR) regime is the main method through which UK businesses are required to monitor and report environmental impact. Other monitoring schemes include the Energy Savings Opportunity Scheme (ESOS), which requires businesses to complete an energy savings audit every 4 years, and the UK Emissions Trading Scheme (ETS). The Climate Change Agreements (CCAs) are a further, voluntary method by which some industries can receive discounts on the Climate Change Levy by reporting (and reducing) environmental impact.

Since 2019, an estimated 11,900 companies in the UK have been required to disclose their energy and carbon emissions under SECR.

The Policy Landscape

Government is progressing towards a holistic view of environmental impact. Soon, companies will need to incorporate environmental considerations in financial risk analysis, consider impact throughout the supply chain, and monitor and disclose emissions and energy consumption from building use. The upcoming 'Extended Producer Responsibility' scheme exemplifies this shift in responsibility towards producers, as they are now expected to report (and pay for) the materials they create and their packaging choices.

There is also an increasing push for environmental information to be publicly available. Consumers are being provided with expanding information on environmental impact, seen through consultations on transparency in energy products and establishing a market for low carbon industrial products. In the next few years, policies will come into effect to increase transparency in industrial and commercial practices. Some of these policies are already set, such as the mandatory climate-related financial reporting coming into effect this year.

Government actions seem to aim for increased transparency, while also addressing the barriers to greener choices. Methods to achieve the latter include supporting electrification by rebalancing prices between electricity and gas, building the market for sustainable (and labelled) products, and extending support for existing measures that reduce emissions, such as CCAs.

Disclosure requirements have focused mostly on larger companies so far, but the policy landscape shows that this trend is changing. By 2025, mandatory climate-related financial disclosures are intended to be consistent throughout the economy. HMG is also considering expanding ESOS to medium-sized companies this year, i.e., businesses which satisfy two or more of the following requirements:

- Turnover of above £10.2 million and not more than £36 million,
- Balance sheet total of above £5.1 million and not more than £18 million,
- Above 50 employees and no more than 250 employees.

Government has also committed to aligning the UK emissions trading scheme (ETS) with net zero by lowering the scheme's cap, and to expanding the scope of scheme to cover a greater share of the UK's emissions; this will see an increased number of companies falling under the scope of the ETS.

> *It is mostly the UK's largest companies which have felt the impact of monitoring and disclosure to date, with all others encouraged to report on a voluntary basis. However, requirements are increasingly expanding towards smaller companies and sectors with lower emissions; businesses should consider potential risks and opportunities accordingly.*
>
> Gill Aker

How could this impact your business?

Increasing government support for transparency can be associated with increased public scrutiny, which leads to reputational risks and opportunities.

Key points of consideration include:

1. Companies should be aware of reputational risks of increased monitoring and reporting, such as increased impact of consumer opinions. Forward-thinking companies should also look to take advantage of new markets (such as low emissions industrial products) and financial opportunities (such as discounts through CCAs) which will become available from upcoming policy.
2. Companies should consider whether they are in scope for upcoming and expanding schemes, such as EPR, UK ETS, and CCAs, and consider how they will comply with upcoming requirements.
3. Smaller companies which are not yet in scope for reporting and disclosure in the UK should prepare for the eventuality that they will become eligible in coming years. Those wishing to be ahead of the game may consider voluntarily beginning the process now.
4. Businesses should consider the potential impacts of upcoming efforts to rebalance electricity and gas prices, aiming to support green choices. This may impact current business models.
5. Organisations seeking to report on forward-looking financial risks and opportunities arising from climate change should consider reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as this is the basis of government policy in this area.

Summary

Areas of focus in the policy landscape include increased transparency, mandatory reporting, and addressing barriers. Forward-planning in this area can lead to opportunities though funding, discounts, and reputational benefits of being ahead of the curve. On the other hand, delayed action may lead to challenges such as rapid implementation of new measures, reputational risk, and potential financial disadvantage.

Future Policy Timelines

Note: this list is not exhaustive, but rather a representation of key items which have been identified through ongoing monitoring and forecasting work.

Year	Targets, policies, and consultations

2022	**Starting this year:**
	• Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and the largest Limited Liability Partnerships (LLPs), including a requirement for scenario analysis. Initially, this will require transition plans that consider net zero or provide an explanation if they have not; eventually moving towards making publication of transition plans mandatory (UK, 6 April 2022).
	• The '2021 uplift' for the Future Buildings Standard comes into effect (UK, 6 April 2022), including changes such as:
	  ◦ CO_2 monitoring to be installed in offices (new builds only)
	  ◦ Extend the scope of CO_2 monitoring to other rooms, specifically 'high risk' rooms where there may be a risk of airborne infection (new builds only)
	
	Upcoming policies and funding:
	• Environment Bill update: UK to introduce legally binding nature, water, air and waste targets (UK Gov, expected by 31 October 2022)
	• Advice, guidance, and protocols in place to support producer reporting on the tonnage of primary, shipment, secondary, and tertiary packaging they place on the market (UK, expected by end of 2022)
	
	Consultation response (awaiting response, live, and upcoming):
	• **Live consultation:** 'Developing the UK Emissions Trading Scheme (UK ETS)' (UK Gov, closing 17 June 2022). Includes proposals for:
	  ◦ Aligning UK ETS cap with net zero
	  ◦ Review of free allocation
	  ◦ Expanding UK ETS coverage, both within covered sectors and to include new sectors
	
	• **Consultation response:** 'Packaging waste recycling notes reform' (UK Gov, closing 21 May 2022), including plans to reform the packaging waste recycling note (PRN) and packaging waste export recycling note (PERN) system. Proposals focus on:
	  ◦ reporting requirements on the sales of PRNs and PERNs
	  ◦ reporting requirements on how the revenue from PRN and PERN sales should be spent
	  ◦ timeframes for the trading of PRNs and PERNs
	  ◦ the introduction of a 'technical competence' test for compliance scheme operators and accredited reprocessors or exporters
	  ◦ the interface with the introduction of the Deposit Return System (DRS)

Future Policy Timelines

Year	Targets, policies, and consultations
2022	• Consultation response: 'Designing a framework for transparency of carbon content in energy products: call for evidence' (UK Gov). The response will likely include commentary and proposals on: • Annualized retrospective renewable energy matching under the current framework • How to ensure consumers are provided with more transparent and accurate information on carbon content when choosing energy services and products • The role of other forms of low carbon power • Opportunities for innovation that can accommodate flexibility • Consultation response: 'Introducing a performance-based policy framework in large commercial and industrial buildings' consultation (UK Gov), including pilot scheme and proposals to: • Introduce a national performance-based policy framework for assessing energy use and carbon emissions in commercial and industrial buildings above 1,000m² in England and Wales, with annual ratings and mandatory disclosure • Owners and single tenants of buildings must obtain a rating for their building annually and publicly disclose the rating online • The framework will be introduced in three phases over the 2020s, beginning with the office sector (applying to an estimated 10,000 offices in England and Wales) • Consultation response: 'Strengthening the Energy Savings Opportunity Scheme (ESOS)' consultation (UK Gov), including proposals for: • Increased standardisation of reporting requirements • Inclusion of a net zero element to audits • Requiring public disclosure of high-level recommendations • Extending the scope to include medium sized businesses • Mandating action on audit recommendations • Consultation response: Towards a market for low emissions industrial products: call for evidence (UK Gov). Proposals include: • Levels defining 'low carbon' will gradually become more stringent • Defining low carbon at the sector level is the preferred method • Demand-side policies to be introduced consistently across targeted sectors and manufacturers of specific products, rather than applying only to large businesses • The responsibility of supplying data for imported products is expected to fall to those that import or place products on the market, who in turn would be required to collect this data from the manufacturer of the product. Reporting and verification may need to happen before products are imported to the UK.

Year	Targets, policies, and consultations

2022	• Consultation response: 'Climate Change Agreements (CCAs): proposals for a future scheme' (UK), including proposals for amendments such as:
	  • Mandatory compliance with a recognized energy management scheme
	  • Mandatory disclosure of action taken, action planned, and annual financial benefits
	  • Maintaining the buy-out mechanism (price not set at this stage)
	  • Using both energy intensity and trade intensity metrics as eligibility criteria
	  • All facilities to be re-tested against finalised eligibility criteria
	• Expected consultation: Consultation on full scheme - Climate Change Agreements (CCA) (UK Gov, not yet published)
	• Expected consultation: Minimum standards and labelling requirements for a range of energy-using products (UK Gov, not yet published)

2023	• Legislation to ensure that transition plans are incorporated into the UK's Sustainability Disclosure Requirements. This aims to encourage adoption of effective transition plans and applies to asset managers, regulated asset owners and listed companies (UK Gov)
2024	• Packaging waste management fees producers will pay established for Extended Producer Responsibility (EPR), and EPR phased implementation begins (UK)
2025	• Company disclosures on climate-related finance mandatory across the economy, aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (UK Gov) • Proposal for improved emissions reporting system (demand-side industrial measures) (UK Gov) • Minimum energy performance standards raised for a range of products (UK)
2030	• Target to significantly reduce energy consumption of commercial and industrial buildings, 21% of which is attributed to businesses (UK Gov) • Minimum energy efficiency standards for non-domestic buildings must be EPC Band B (UK) • 43 - 53% reduction in industrial emissions, compared to 2019 levels (UK Gov)
2035	• 63-76% reduction in industrial emissions, compared to 2019 levels (UK Gov)
2050	• Reduce emissions from buildings to near zero (between 0 and 2 MtCO2e) (UK Gov) • 87-96% reduction in industrial emissions, compared to 2019 levels (UK Gov)

To find out how AMP Clean Energy can support your business with your Net Zero strategy, contact Stuart Reid, Head of Net Zero Customer Solutions on **07833 231085** or **stuart.reid@ampcleanenergy.com**

These policy briefing papers have been developed and produced in association with Hutcheson Associates.

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