Department
for Environment
Food & Rural Affairs

# GHG reporting guidelines - 2014 update

## Overview

In July 2013, Defra published updated guidance for companies on how to report their greenhouse gas emissions.

As part of the development of that guidance, there were some calls for a change to the way that companies reported renewable electricity that they specifically purchased from their electricity suppliers. We have been examining the implications of such a change and we are now consulting on two options for amending the guidance.

We also propose to enable companies to reflect purchases of biogas and biomethane, if they hold corresponding documents certifying that the gas has been injected into the gas grid. Again, we are consulting on how this should be presented in company reports.

## Why We Are Consulting

Emissions associated with the use of electricity from the grid are generally calculated using the grid-average emissions factor. This figure is based on the actual emissions from all the generating sources supplying the electricity to a particular location, which includes a mixture of fossil, nuclear and renewable electricity. If a company decides specifically to purchase renewable electricity from their supplier, that should boost the total UK investment available for renewable energy but will not directly alter the nature of the electricity which is actually used by the organisation. As a result, the current guidance only allows them to report an emissions reduction if their electricity supplier makes an *additional* carbon saving which would not have happened otherwise. Under the existing guidance, that would require their supplier to demonstrate that they have offset at least 50% of the carbon emissions from the electricity supplied using Kyoto-compliant or 'good quality' carbon credits.

Some organisations see this approach as excessively onerous, claiming it deters companies from purchasing renewable electricity and thus reduces potential investment in renewables. Defra agreed to investigate whether the existing requirements could be relaxed, while still ensuring the fairness, accuracy and transparency of corporate greenhouse gas reports and accounts.

We believe that some revision is possible that would enable companies to report a reduced emissions figure, based on purchased renewable electricity, without the need for the additional carbon offsets. In order to do so, their electricity supplier would need to hold the requisite number of Renewable Energy Guarantees of Origin (REGOs) and take out of use any Levy Exemption Certificates (LECs) associated with the electricity in order to prevent re-sale and double-counting. This would be termed a 'contractual' or 'market-based' reporting approach and would be a significant change for many reporting entities.

Even if the conditions above about REGOs and LECs are met, this does not alter the fact that the actual electricity supplied to them through the grid is no different to the electricity supplied to everyone else in that area or at that time. Questions remain, therefore, about whether the purchased renewable electricity would actually result in additional renewable energy generation compared to what would have been built or supplied anyway as a result of Government support schemes financed via consumer energy bills generally. This is one of the arguments used to support reporting based on the 'grid-average' emission factor ('location-based' reporting) rather than a contractual/market-based approach.

Defra's aim is for the updated guidance to provide maximum transparency for the public and users of greenhouse gas reports, while also giving fair recognition to companies for their purchase of renewable electricity. The guidance will therefore use a 'dual reporting' approach whereby both accounting methods are used. This will allow the reader of the report to have a full appreciation of the organisation's actual emissions and also its actions to mitigate those emissions. Companies would be required to report the grid-average figure (location-based), but could also choose to report a reduced emissions figure from any purchased renewable electricity (market-based) as well. In addition to these changes to purchased electricity reporting, we also propose to enable companies to reflect purchases of biogas and biomethane, if they hold corresponding documents certifying that the gas has been injected into the gas grid.

Defra is consulting now on how these figures should be presented in reports.

**Option 1: Gross / net approach**

In this approach, the emissions calculated using the grid-average emissions factor (i.e. location-based emissions) are presented as part of the overall "gross" emissions of the organisation. Any purchased renewable electricity would be reported within a separate "net" emissions figure (using the market-based accounting approach) along with other greenhouse gas reduction activities, such as the purchase of carbon offsets or the sale of renewable electricity to the grid.

Any purchases of biogas and biomethane would also be reflected within the net emissions figure, so long as the company provides certification that the gas has been injected into the gas grid.

Option1_GHG_reporting_update_2014_net-gross.docx (available below) sets out how the existing guidance would be amended to reflect this approach. The major changes are in Chapter 3, Annex G and Annex H, and are highlighted in yellow within these sections. An example report is shown in Annex H of the document.

**Option 2: Two gross figures**

In this option, both the location-based and market-based electricity figures are included within the overall “gross” emissions of the organisation and presented side-by-side, rather than as gross and net. These figures would need to be clearly labelled as “gross location-based emissions” (calculated using the grid-average emissions factor) and “gross market-based emissions” (calculated using the requisite reduced emissions factor).

Note that for each of these gross figures it would also be permissible to report a corresponding net emissions figure, in which emissions from other external greenhouse gas reduction activities such as the purchase of carbon offsets are deducted from both gross figures. These net figures should be clearly labelled as “net market-based emissions” and “net location-based emissions”.

Any purchases of biogas and biomethane would be included within the gross market-based emissions figure, again so long as the company provides certification that the gas has been injected into the gas grid.

Option2_GHG_reporting_update_2014_gross-gross.docx (available below) sets out how the existing guidance would be amended to reflect this approach. The major changes are in Chapter 3, Annex G and Annex H, and are highlighted in yellow within these sections. An example report is shown in Annex H of the document.

**Issues to consider**

Both of the above options are a departure from earlier (2009) guidance and both will allow for corporate accounting and reporting of purchased renewable electricity without the need for additional carbon offsets.

There are arguments for and against both presentational options.

On one hand, it is argued that giving equal status to both the market-based and location-based emissions within gross emission figures enables businesses to gain appropriate recognition for voluntarily purchasing renewable electricity, and hence better incentivises this form of renewables investment.

It is possible that a very significant increase in long-term contracts for the purchase of renewable energy could incentivise new investments in renewables which would not have happened otherwise. The pull of significant extra demand through voluntary support for renewables could make the difference for some schemes, which were not economically viable through government measures alone. At the moment, though, the supply of renewable electricity vastly outweighs the demand via voluntary contractual agreements.

Others argue that, given the uncertainty about the extent to which additional renewable capacity is actually delivered, placing market-based emissions into net emission reporting is a more proportionate approach and consistent with other indirect emissions offsetting measures.

There are also concerns that allowing companies to report significantly reduced gross emissions by purchasing renewable electricity and giving this equal accounting status in reports will reduce pressure to make energy efficiency improvements which lead to greater overall emission reductions.

Both of the above options would allow for corporate accounting and reporting of purchased renewable electricity without the need for *additional* offsets to be purchased, in a significant change from the 2009 guidance. We would be interested in views on which of the above presentational options should be introduced into Defra's reporting guidance and the reasons why that option is the most appropriate. For example, we are interested in whether it would make any difference to companies' appetite to purchase renewable energy if it had to be reported in the net rather than gross figure or whether a good case can be made for giving equal prominence to the two figures.

It is important to bear in mind that this remains guidance, and is not compulsory. Businesses are still free to choose from a variety of other approaches, such as that provided by the GHG Protocol.

We would like to know whether you have a preference for one option over the other, how strongly you feel and on what basis you have reached that opinion.

If you would like to respond to the consultation, please complete the survey below by **Monday 24 March 2014.**