Streamlined Energy and Carbon Reporting

Consultation Response

Administrative Details:

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The views expressed in this response are an official response to the Consultation by the Chartered Institution of Building Services Engineers

The Chartered Institution of Building Services Engineers is the professional body that exists to:

> *'support the Science, Art and Practice of building services engineering, by providing our members and the public with first class information'*

CIBSE members are the engineers who design, install, operate, maintain and refurbish the energy using systems installed in buildings, including homes, and are specifically trained in the assessment of heat loss from building fabric and the design of energy using systems for the provision of heating and hot water, lighting, ventilation and cooling and small power distribution in homes. Many CIBSE members work in the public sector in general and in higher education in particular.

CIBSE has over 20,000 members, of whom around 75% operate in the UK and many of the remainder in the Gulf, Hong Kong and Australasia. Many are actively involved in the energy management of commercial buildings for larger businesses, and so this consultation is highly relevant to us and to our members.

As an Institution CIBSE publishes Guidance and Codes which provide best practice advice and are internationally recognised as authoritative. The CIBSE Knowledge Portal, makes our Guidance available online to all CIBSE members and is the leading systematic engineering resource for the building services sector. Over the last twentyone months it has been accessed over 200,000 times, and is used regularly by our members to access the latest guidance material for the profession. Currently we have users in over 170 countries, demonstrating the world leading position of UK engineering expertise in this field.

Introductory Remarks

The Institution is pleased to respond to the consultation paper on streamlined energy and carbon reporting, having contributed to the 2015 consultation on business energy taxation. CIBSE is supportive of the remarks made in the Ministerial Foreword, particularly the statement about saving energy as a cost effective way to reduce costs, save carbon and help meet our emissions targets. It is particularly welcome to see this being explicitly stated by the Minister.

We also welcome the emphasis on the economic benefits of public disclosure. Efficient markets require openness and transparency to function effectively, and open and transparent reporting of energy use and carbon emissions is needed to provide the impetus for senior management to focus on reducing energy consumption in businesses.

This opportunity to streamline the mechanisms for measuring, managing and reporting energy efficiency is important. However, for any new reporting mechanism to successfully and effectively drive action beyond short term investment in energy efficiency measures requires a stable policy environment, with a sense that the new arrangements have the potential to last longer than the current parliament. Cross-party support for the new reporting framework is likely to increase its effectiveness.

It is also worth noting that openness and traansparency alone cannot overcome market failures, which can sometimes only be resolved by firm government intervention. Two examples are the ongoing determination of shops to keep their doors open in cold weather, because closing them reduces footfall, or for putting doors on refrigerated food cabinets because it will reduce casual sales. Nobody is willing to risk being the first to move, even though almost any observer can see that the current open or no doors policies are just plain madness. Only government intervention will resolve these issues – and if taken then the whole industry would come on board and bank the energy savings willingly! Reporting will not resolve these challenges, however good and streamlined a regime.

Consultation question responses:

Context and Scope

The emphasis on the benefits of energy efficiency in paragraph 1.1 is very welcome. Paragraph 1.2 notes the role of mandatory disclosure of energy use and carbon reporting in providing a policy context that is supportive of good practice and exposes poor performance to investors, custmoers and the wider public. Paragraph 1.18 amplifies this, but then ends with a reference to minimising the cost to UK business. This is unfortunate. It is one thing to ensure that the reporting and disclosure framework is proportionate and fair, and those are to be strongly encouraged. Minimising regulatory costs at the expense of effectiveness undermine the whole endeavour, and in the worst case can lead to disastrous outcomes, as has become clear in the built environment in recent months.

Any mandatory disclosure regime should be proportionate, not minimum cost.

Q1. Do you agree that the proposed energy and carbon reporting policy should apply across the UK? [Yes or No] Please explain your answer.

A1. Yes. Uniform application across the UK is essential to ensure a consistent outcome and is also essential to achieve the proportionate response mentioned above. It is hard to see any rationale for any other approach.

Q2. Do you have any comments on the analysis set out in the Impact Assessment?

A2. It is very difficult to reconcile the information on the summary sheets of the IA. At the top of the pages for Options 2-4 there is a net benefit of over £1bn, set against just £666m for the non regulatory option. At the foot of the pages are net costs to business. It is not readily apparent how policy options that offer such a large benefit, and which streamline existing requirements, can emerge as imposing net costs to business.

We would welcome any additional evidence on costs and benefits to support a final assessment of impacts. Please contact us at reporting@beis.gov.uk if you would like to discuss our assumptions or provide us with additional sources of evidence, or if you would be interested in attending any analytical workshops we may hold.

Q3. Do you agree that reporting should be done through annual reports? [Yes or No] Please explain your answer.

A3. Yes. This will concentrate minds and is more likely to lead to energy being considered as an item to be managed and to maintain the year to year focus that energy matters require. Annual reports would be a more transparent way for organisations to demonstrate progress. In the event that progress is not being made, this would become visible and allow interventions to take place, whether they be market interventions by shareholders or NGOs or regulatory interventions.

If yes, would any of the following, forming part of companies' annual reports, be better suited? a) Directors' reports, b) Strategic reports, or c) a new, bespoke report. Please explain your answer, note any issues you see with using these reports, and provide any comments on how proposals might best fit within the annual reports regime.

c) a new, bespoke report, but one which draws significantly on the existing reporting required of large enterprises under ESOS. The information that needs reporting is largely already there.

As part of the Annual Report audited energy data should be incorporated together with intensity metric/s and a summary of energy opportunities that have been implemented – all of the above should be verified by suitably competent and accredited energy professionals (Lead Assessor to ESOS standards). Again, this uses the existing infrastructure of ESOS and avoids the costs of creating new arrangements.

An overseeing body should review a percentage of the above reports to check that the quality of audit is correct, as currently occurs with ESOS.

In setting the detail of the reporting format and the detailed digital software requirements then thought should be given to the value of making the data readily available for further analysis. One of the drawbacks of the Energy Performance Certification and Display Energy Certification

formats is that pre-date the era of open data and are not designed with analysis of the aggregate data as a priority, even where, in the case of Display Energy Certificates for the public sector they were designed to be 100% publicly accessible. This time around data formats and reporting requirements should be driven by the desired outcomes of openness, transparency and an ability to use the data to drive behaviour change.

Q4. Do you agree that from 2019 energy and carbon reporting to Companies House should be electronic? [Yes or No]. If yes, please specify any digital formats, such as XBRL / iXBRL, that may be suited to this purpose, and any opportunities and challenges these may present.

A4. Yes. Data must be submitted in electronic format to enable further analysis of all reporting organisations, reviews of trends etc. The data should be collected in a format that aids open disclosure and analysis. See the paragraph on this in response to Q3.

Q5. Do you agree that the government should seek to establish a mechanism for collating published energy and carbon data for example via a central published report or tool? Please explain your answer.

A5. Yes. See also comments above under A4. A mechanism for collating published energy and carbon data via a central published report or tool would be an efficient and transparent approach.

Comparative reporting drives the effectiveness of schemes like the Carbon Disclosure Project, GRESB and NABERS, the Australian rating and disclosure scheme.

Statistics from schemes such as Display Energy Certificates have proved invaluable in assessing the effectiveness of the schemes and for updating performance indicators and metrics.

Organisations should also be given opportunity to show interventions and improvement projects that they have delivered within each year (since improvement is ultimately what we are all trying to achieve).

Q6. Do you think that the policy should apply to:
A) all ‘large’ companies based on employee numbers and financial tests;
B) companies who meet the 6GWh ex-CRC annual electricity use threshold described; or
C) another threshold?

Please explain your answer. Please state if you have any views on whether reporting should be required to operate at the group or individual company level.

A6. Whatever threshold or definition is chosen it should be clear who is in and who is out. Ideally it should be consistent with the ESOS arrangements, but the divergence with the Companies Act definition is noted. Is that really a major obstacle? If a Company is in ESOS then can it not be required to report in addition to its Companies Act obligations if it is not already covered? It is appreciated that this is a question for the lawyers, but given that ESOS is already in place then it seems a retrograde step not to include all companies in scope for ESOS.

CIBSE does not think the reporting requirement should be restricted to approach B – this is not what was expected on the basis of the 2015 consultation and would be a retrograde step.

There is an argument that a de minimis level of 2.5 GWh should be chosen; this together with organisations specifying non-SME would keep things simple (i.e. just one metric) and at the same time also ensure that an appropriate proportion of UK energy and carbon emissions would be covered by the scheme, whereas a 6 GWh threshold is certainly much too high. It may be that government would consider a phased approach, with all those currently in scope for ESOS in the initial scope of the streamlined reporting, and then an extension to a 2.5GWh non SME threshold at the start of carbon budget four, for example.

Q7. If you prefer Population Approach A (all 'large' companies) which of the proposed company size definitions seems the most appropriate to you, (i) Companies Act 2006, or (ii) ESOS, or (iii) any others?

A7. Please see the discussion above under Q6 about seeking to cover all ESOS participants.

Q8. If you prefer Population Approach C, which energy use threshold is most appropriate? Please explain your answer, and state who you think should be required to report, describing any other energy threshold(s) you may favour (with options including but not limited to 6GWh per year across all energy products, and 500MWh per year for each of electricity, gas, and transport).

A8. 2.5GWh combined usage should certainly cover electricity and gas, and could also include transport for all non-SME organisations.

This would keep things simple (i.e. just one metric, albeit with two or three components) and at the same time also ensure an appropriate percentage of UK energy and carbon emissions would be covered by the scheme. A 6 GWh threshold would eliminate too many organisations where energy is still a significant cost.

Q9. Should reporting requirements within the Companies Act regime also apply to Limited Liability Partnerships (LLPs)? [Yes or No]. Please explain your answer.

A9. Yes - There should be no difference in coverage if the energy consumption criteria are met.

Q10. Please state where you agree that UK quoted companies should continue, or start to report, on one or more of the following a) global Scope 1 and 2 GHG emissions b) an intensity metric, and start to report on c) global total energy use?

Please also provide any views and evidence on the effectiveness of the current mandatory GHG reporting regime in improving corporate transparency, reducing energy use, and reducing emissions.

A 10a. This is about streamlining the existing arrangements in the first instance, and so continuing to require global Scope 1 and 2 GHG emissions seems an obvious starting point.

There is likely to be a view from market leaders that an intensity metric should also be included as it allows more energy intensive businesses to demonstrate good performance against peers, on a year on year basis, and this is to be encouraged as being entirely in keeping with the spirit of driving better practice and improved energy efficiency. It would also deliver an evidence base with which to determine where additional interventions may be needed over a period of a few years, and to highlight those sectors where further improvement needs to be stimulated.

Q11. Do you agree that UK unquoted companies in scope should report on a) total UK energy use, b) Scope 1 and 2 GHG emissions associated with UK use c) an intensity metric? Please explain your answer.

Do you agree that only electricity, gas and transport energy should be in scope for unquoted companies? [Yes or No]. Please explain your answer, and if no please set out what you think the scope should be.

A11. As suggested above, extension of the regime to include reporting of Scope 1 and 2 GHG emissions covering electricity, gas, and transport for all non-SME organisations is strongly recommended, potentially for the start of carbon budget four.

Those organisations with ISO 50001 should already be using an intensity metric and reporting as outlined above.

On a point of detail, conversion to CO_2 should be done automatically by the chosen SECR reporting system, as it is for DECs, rather than by submitters as in CRC and EU ETS. That would be a useful and significant simplification of reporting, delivering reduced costs and consistency.

b) Scope 1 and 2 GHG emissions associated with UK use
c) an intensity metric

Yes - Unquoted organisations should be treated the same as quoted organisations: the objective is the same for both and can be progressively extended in subsequent phases if appropriate. It is important that unquoted organisations are required to do just as those that are quoted – and they may be considered to require a higher level of support and enforcement as they can be less open and transparent than quoted companies, and may be less resistant to disclosing energy and emissions.

Q12. Should the government a) mandate the use of specific intensity metrics by sector; b) propose best practice in any guidance; or c) leave the matter to sectors, and to existing best practice and guidance?

A12. The intensity metrics need to be consistent within sectors and so there must ultimately be a requirement to use a specific metric. However, that should be chosen and if need be developed in consultation with sectors and energy specialists. Intensity metrics need to be developed with users and not imposed on them “from an office in Whitehall”.

Q13. A) Do you think it should be mandatory for UK quoted and unquoted companies in scope to include information from the most recent audit (including energy management systems such as ISO50001) on i) any identified energy savings opportunities [Yes or No] and ii) any energy efficiency action taken? [Yes or No]

Yes - i) any identified energy savings opportunities
Yes - ii) any energy efficiency action taken?

A13. The whole point of the reporting regime is to encourage ACTION, so companies should be encouraged to report on action. Showing that they are acting on the energy and emissions data should be a positive outcome for those applying good practice and failure to act is a material fact that investors should have full disclosure on, as the risks associated with poor energy and emissions performance grow, so capital will want to move to those who are taking action. This is absolutely fundamental to the overall purpose of the proposed streamlining package, and entirely in keeping with the Minister's stated aims in the Foreword.

B) Building on the energy and carbon disclosures proposed here, please provide views on whether in the long-term any of the TCFD recommended voluntary disclosures should become mandatory disclosures within companies' annual reports.

C) Please specify what support government could provide to support uptake of TCFD disclosures by companies from all sectors.

If a company is certified to ISO50001 they a tax break, rather like CCA, could encourage the uptake of the standard and help companies to have a good foundation for reducing energy. This fits well with the TCFD as the new ISO50001 will have a section on risk and risk management and already incorporates Strategy and Metrics and Targets.

D) Reporting of what other complementary information would add most value for businesses, the market and other stakeholders?

None if the above measures such as extension to companies using over 2.5GWh are taken.

Q14. Please explain what guidance, tools and data companies might need:

i) for financial and risk managers to understand climate risks and their implications for their business and

ii) for companies to implement the TCFD recommendations in financial disclosures.

A14. There is already a significant body of guidance in the market. Unless government wishes to adopt formal guidance that is developed in consultation with a wide range of sectors then it would be more appropriate to allow the market to develop appropriate guidance.

Q15. What other policy approaches can work with reporting to drive energy efficiency, reduce bills, reduce emissions, and improve transparency for investors so they are more able to hold companies to account?

We are in particularly interested to hear about any implications of potential complementary policy approaches for the design of an energy and carbon reporting scheme.

As noted above, reporting on what organisations have actually done and how this is driving improvement in their intensity metric is the key way to drive implementation of energy improvement projects. In competitive sectors, where market leaders lead, competitors tend to follow, although sometimes the barrier to being first mover can become a barrier to any movement (as with the issue of shops keeping their doors open in cold weather, or putting doors on refrigerator cabinets, where nobody is willing to risk being the first to move, even though almost anyone can see that the current open or no doors policies are just plain madness).

Penalties, open enforcement and disclosure of those penalised for non-compliance with reporting energy data, metric and interventions are essential to make the whole policy work.

If the energy intensity metric hasn't improved despite an organisation making energy interventions, the organisation needs to also clearly explain why this is the case.

Q16. Please provide views and any information you may have on the relative costs and benefits of:

A) (1) Central digital reporting and publication of energy and carbon data, including specifically how these costs and benefits compare to reporting through the Companies Act regime on paper that is scanned to images by Companies House to make it available

Electricity, gas, and transport usage and energy intensity metrics should be used as a method to consistently compare how well each organisation is actually doing year by year as well as to consistently compare sector performance as a whole. Without this data in digital machine readable formats it would have to be re-input (with significant costs and risk of errors). Comparison of information would be extremely useful after a few years to show progress and to help organisations learn from one another (e.g. best practice).

(2) Please outline the different costs and benefits of:
(i) mandating electronic energy and carbon reporting via Companies House, with complementary activity by government to collate public data and make a single central data set available
(ii) replacing reporting to Companies House with a new dedicated central IT portal, the data from which could be published
(iii) placing such a dedicated central IT portal alongside the current proposals

A16a. At this stage the focus should be on streamlining the existing arrangements and reporting and not on creating another IT project. Given recent National Audit Office concerns about the

capacity of government to manage the IT projects arising as a direct and unavoidable consequence of the UK leaving the EU, it is unwise even to consider creating a further elective IT project at this point. Whatever views are expressed on costs they will escalate and the burden on business of adapting to the new system will undermine the benefits of streamlining.

B) (1) Dedicated administrator(s) and regulator(s), including specifically how these costs and benefits compare to administration and regulation of energy and carbon reporting as described within the Companies Act regime

(2) Please outline the different costs and benefits of administration and regulation in relation to both replacing the current proposed scheme and placing such a scheme alongside the current proposals.

A16b. ESOS is already administered and regulated, so basing the streamlined regime on ESOS will minimise the costs.

Q17. If replacing the proposed regime in future, please set out how a dedicated central energy and carbon reporting regime could continue to meet the needs of investors and others in relation to GHG reporting by UK quoted companies, currently required to be alongside financial information in annual reports.

Since we have operators set up to report CRC, CCA and EUETS at present then simply bringing these together would be cost effective and offer little disturbance for operators and show little variance in cost.

Q18. Do you have any other comments on the description of how potential future enhancements to energy and carbon reporting might function under any of the possible approaches, have other suggestions for future enhancements, or consider that any aspects of energy and carbon reporting proposed for 2019 might be better deferred? Please explain your answer.

These improvements should NOT be deferred. Action is required now if the UK is going to contribute to the energy and carbon reductions required to meet future targets. As reported this week we are currently forecast to fall short of carbon budgets 4 and 5: this streamlining is important to help close that gap.

Consultation Questions – Additional

Q19. Are you happy for your response to be published?

Yes, it is already made public on our consultations webpage.

Q20. Would you be happy to be contacted if we would like to find out more about your responses or invite you to a workshop?

Yes, CIBSE is always willing to contribute to the development of policy measures and offer insights from a range of our members if that is helpful.

Q21. What is your job title?

Job Title: Technical Director

I head the Technical Team of the Institution, which has a staff of circa 65 supporting the membership. We provide a range of guidance and co-ordinate CIBSE contributions to a range of government departments on matters relating to the performance of buildings, including energy, comfort and air quality matters.

CIBSE is the sixth largest professional engineering Institution, and along with the Institution of Structural Engineers is the largest dedicated to engineering in the built environment. Our members design, install, manufacture, maintain, manage, operate and replace all the energy using systems in buildings as well as public health systems.

www.cibse.org

The following answers in Q22-Q26 relate to the Institution. The answers to Q1 to 18 are based on consultation and discussion with our members and reflect their wider views.

Q22. Please tell us the principle area of activity for your organisation?

M. Professional engineering and related technical activities in the built environment in the UK and overseas.

Q23. Which region is your organisation's head office based in?

D. England

Q24. Please tell us about the size of your organization. Approximately how many people are employed by your organisation overall?

A. As noted above, CIBSE employs c65 staff and has over 20,000 members worldwide.

Q25. Approximately what is your company's annual turnover within Britain? If you are not sure, please give me your best estimate.

A. Approx £7m

Q26. Is your organisation part of a wider corporate group? i.e. one of two or more active organisations working as a collection of parent and subsidiary firms.

B. No

Q27. Which, if any, of the following schemes does your organisation participate in?

A. CRC Energy Efficiency Scheme
B. EU Emissions Trading Scheme
C. Energy Savings Opportunity Scheme (ESOS)
D. Climate Change Agreement
E. Climate Change Levy
F. Mandatory greenhouse gas reporting
G. Energy Performance Certificate (EPC)
H. Display Energy Certificates (DEC)

Our members are active in all of them and the Institution is directly involved in C, G and H. CIBSE is also accredited to certify to ISO 50001.