Gaffney Cline

Overview of UK Carbon Emissions Reporting Requirements

In November 2020, the UK Chancellor announced the intention to make the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) fully mandatory across the economy by 2025. As a result, the UK will become the first country in the world to make TCFD aligned disclosures mandatory with many requirements coming into force by 2022.

The TCFD was established in 2015 to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures. The ambition was for companies to better guide investors, lenders and other stakeholders on company exposure to climate-related risks.

A significant number of LSE-listed companies will be affected including large private companies, banks, insurance companies other financial organisations.

Rules for the largest firms in those sectors will come into force in 2022, and with further consultation ongoing in 2021 relating to extending the scope of the rules and introducing TCFD obligations for other businesses, extension of the rules to more companies is likely.

TCFD Recommendations

The TCFD structured its recommendations around four principal interlinked themes that represent the main methods of how companies operate: governance, strategy, risk management, and metrics & targets.

- Governance: Governance of risks and opportunities, meaning the disclosure of the board's oversight, involvement and managerial role in assessing and managing climate-related risks and opportunities.
- Strategy: Actual and potential impacts of risks and opportunities to organisation's strategy and financial planning.
- Risk Management: Disclosure of processes for identifying, assessing and managing risks plus how it is integrated into the organisation's operation and risk management.
- Metrics and Targets: Disclosure of metrics to assess risks and opportunities including disclosing Scope 1, Scope 2 and if appropriate Scope 3 Green House Gas (GHG) emissions. Also included is a disclosure of the risks involved with the emissions and description of targets used to manage risks and opportunities, plus performance against targets.

TCFD Guidance on Strategy

The main objective of the TCFD's recommendations is to encourage evaluation and disclosure of the climate-related risks and opportunities that relate to business activities. The risks have been defined in two major categories: 1) Risks associated with the transition to a lower-carbon economy, and 2) Risks associated with the actual physical impacts of climate change.

For energy companies a key Transition Risk is the change in Asset Reserves caused by changes in through increased carbon pricing/taxation.

TCFD Guidance on Metrics and Targets

Organizations should provide the key metrics used to measure and manage climate-related risks and opportunities, as described by the TCFD, including:

- Organizations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions including the related risks.
- GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability.
- GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis.
- Organizations should provide a description of the methodologies used to calculate or estimate the metrics.

Examples of Metrics for Oil and Gas Companies

The TCFD provides illustrations of typical reporting expectations for oil and gas companies including:

GHG Emissions:	Amount of gross global Scope 1 emissions from: (1) combustion, (2) flared hydrocarbons, (3) process emissions, (4) directly vented releases, and (5) fugitive emissions/leaks (MT of CO_2e).
GHG Emissions:	Estimated Scope 3 emissions, including methodologies and emission factors used (MT of CO_2e).

GaffneyCline Provides GHG Emissions Reporting in Accordance with TCFD Requirements

The Carbon Management Practice at GaffneyCline builds on our oil, gas and energy expertise by performing assessment of GHG emissions, and climate-related risks and opportunities. We offer a complete Carbon, Methane and Climate-related Advisory service to support clients in their Environmental Social and Governance (ESG) requirements, including supporting TCFD-reporting requirements.

Assessments of **GHG Emissions, Carbon intensity (CI) and Risks/Impacts of Carbon Pricing on Reserves and Resources** are key capability pillars of GaffneyCline's Carbon Management Practice.

Furthermore, GaffneyCline can provide hydrocarbon-based **Climate Change Scenario Analysis** considering **Commodity Pricing Risks/Impacts** in addition to **Regional Supply Cost Resource evaluations**.

The Practice provides five major capability pillars to our clients that can be combined or provided on a bespoke basis as required:

1. **Emissions & Carbon Intensity Evaluations** (Scope 1, 2 and 3 in addition to the amount of CO_2 equivalent emissions per unit of product) for Upstream benchmarking against an existing database of 9,000 fields across 90 countries, as well as Midstream and Downstream assessments.
2. **Evaluation of Carbon and Climate Policies and Regulations** across the value chain (from reservoir to point of sale) and how these may influence business competitiveness over time.
3. **Assessment of Carbon Solutions** that are available to avoid, reduce, replace, offset or sequester CO_2 equivalent emissions in a cost-effective manner to ensure continued compliance and competitiveness.
4. **Accreditation of Emissions Reductions** to provide an independent view for stakeholders and enable realization of associated benefits.
5. **Economic Evaluation of Carbon Reduction** to provide an expert view of tax incentives and subsidies and what that means for profitability.

For more information about GaffneyCline's integrated services, please contact your regional GaffneyCline office.

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