

# A Guide to GHG Emissions Accounting & ESG Data Management

envizi

December 2021

[envizi.com](https://envizi.com)



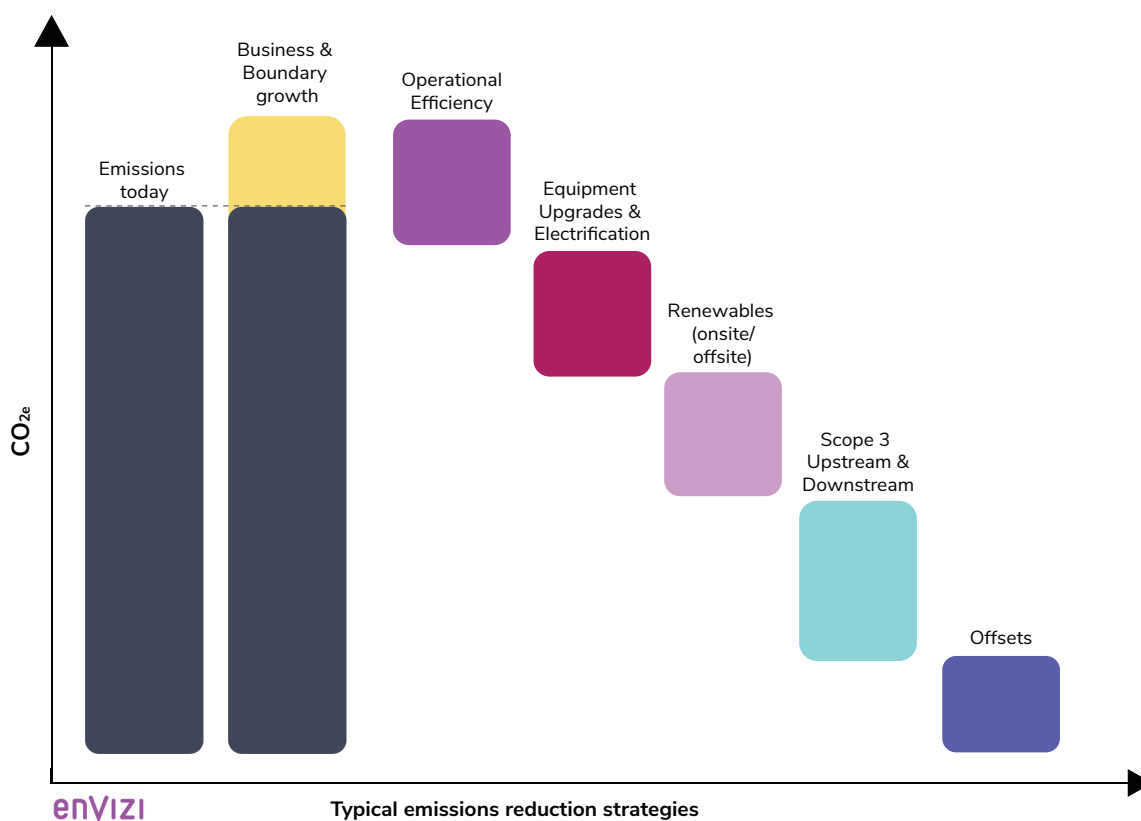
# Introduction

Investors are increasingly scrutinizing Environmental Social and Governance (ESG) performance – and looking for companies to rise to the challenge of delivering ESG improvements.

In this publication we focus on the E in ESG, specifically the processes used to manage environmental performance data and the steps required to account for GHG emissions. The pathway to reduce emissions starts with accurate calculation of the emissions baseline and requires ongoing measurement of emissions reductions. The calculation and reporting of emissions is not just required for internal tracking of performance, it is required by most every ESG reporting framework. However the highly developed and deeply embedded processes that exist to capture and disclose financial data are not yet standard practice for ESG metrics like Greenhouse Gas (GHG) emissions.

In the following sections we outline the steps to establishing finance-grade sustainability data, and unpack a best practice approach to calculating GHG emissions for reporting and disclosure.

## The Emissions Reduction Journey



Decarbonization requires two essential ingredients: finance-grade sustainability data and a robust, auditable greenhouse gas (GHG) emissions accounting process. Both equip key stakeholders with the information they need to accelerate their decarbonization goals.

**In this ebook we answer how to:**

Establish  
finance-grade  
sustainability data

Account GHG  
emissions for reporting  
and disclosure

Tackle the more  
complex components  
of GHG accounting





# Table of Contents

Chapter 1: Establishing finance-grade sustainability data .....	5
Chapter 2: Calculating GHG emissions for reporting and disclosure .....	10
Chapter 3: Mastering the complexities of GHG accounting .....	14





## Chapter 1

# Establishing finance-grade sustainability data

While sustainability performance is increasingly being used to assess organizational performance in a manner akin to the way investors use financial data, the deeply embedded and highly developed structures and processes for capturing and managing financial data do not always exist for sustainability and energy data.

In over a decade of supporting organizations along their decarbonization journey, we are constantly reminded that data capture and management present a challenge for many organizations.

There are a few practices, however, to help simplify collecting and consolidating your data into a foundation that supports your GHG accounting and sustainability disclosures.

## Review data accessibility and evaluate options for data capture

### Tips

- » Consider outsourcing the data capture process to a specialist service provider.
- » Get as close to the original data source as you can.
- » Aim for automated data transfer wherever possible. Minimize human intervention: Files touched by people prior to data collection are more prone to failure to load, precision loss and metric confusion.
- » Consider how you will store and manage the data on an ongoing basis. A cloud-based enterprise software platform is infinitely superior to spreadsheets for this task.

The data required for setting and implementing decarbonization strategies is often scattered across various internal systems throughout the organization, many of which may be incompatible, or the data may be held by suppliers that do not have systems and processes in place to share it. To complete your data foundation, your team needs to determine how it will source the data it needs on an ongoing basis.

## Work with your utility providers

Energy consumption data informs decarbonization strategies, and sourcing this data from utility providers via utility meters is the gold standard.

This seems straightforward until you consider that there are thousands of utility providers with different rules and processes for data provision. This creates variability in each utilities' willingness and ability to provide data, which creates difficulties, particularly for organizations with multiple facilities in different geographic locations.

### Tips to address this challenge

- » Contact your utility provider and explore data sharing options. The preference should be an automated data provision via either an online portal or via an application programming interface that allows data exchange.
- » Consider working with a specialist partner to automate the data capture process.
- » Include a data provision clause in all new energy procurement contracts.

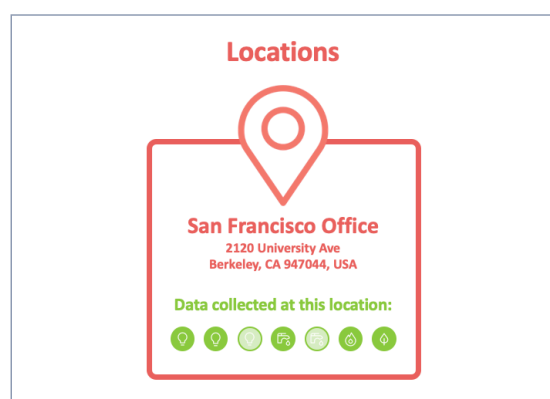
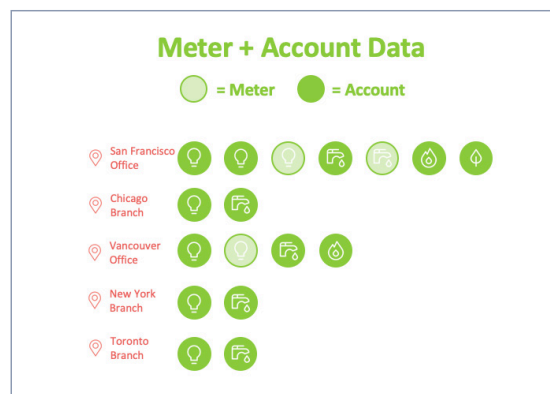


# Create a robust and flexible data structure

Your data must be organized in a structured way that best supports the decarbonization target you have set in place. Consider which types of data your organization needs to capture and how the data should be tagged and aggregated to support your reporting requirements. Your sustainability data management software should support tagging of data at the account or meter level, which can be aggregated to locations and further aggregated to groups.

Tips

- » Review the detailed reporting requirements of pledges or commitments you have made, and ensure your team understands what data it needs to support them.
- » Regularly check and maintain metadata (tags, labels, opening/closing dates, etc.).
- » Set minimum key performance indicators for the data management process to define thresholds such as “data completeness,” and document the decisions.



## Develop processes for data management and assign ownership

Data-driven decision-making is only valuable if the data is accurate, complete and up-to-date. Effective data management requires dedicated attention to detail, ownership and diligence.

### Tips

- » Create an accountability matrix for data management and assign responsibilities to staff. This matrix should set out a regular schedule to review data completeness to catch errors in time to address them.
- » Keep a close eye on data flowing in. Set up inactivity alerts against each data source to identify data gaps early on.
- » Institute a process to reconfigure formatting updates from utility supplier updates. A small change such as which column a data is located on within a bill can prevent your data from loading properly.
- » Follow up promptly with parties that have not fulfilled data provision commitments.

## Create a single, trusted source to store and share your data

### Tips

- » Use cloud-based storage to provide password-protected access for all stakeholders.
- » Ensure supplier contracts are worded to ensure data ownership rests with your organization.
- » Align your data capture and management plan with audit requirements.

Data is an increasingly valuable resource for guiding business decisions, so it should be made accessible to both internal and external stakeholders.

If this process is outsourced, remember that this data poses as much of a business risk as financial data and the governance structure to protect it should be similar.



# Prepare up front for an audit and future-proof your data

The audit process is a critical step to validating reported progress. While the outcome is important to the organization's governance, the steps to achieve audit-ready, traceable data can be challenging.

## Tips

- » Consult with your auditor up front, understand their requirements and ensure your policies for data retention and tagging are aligned.
- » Leverage a cloud-based single system of record that includes change tracking and document storage, and that can easily be configured to provide access to external parties as required.



# Engage your teams early in the process

The responsibility for energy and sustainability data management cannot fall solely on the sustainability team. There is much to be learned from organizations that have successfully tackled this particular challenge. GPT, one of Australia's leading REITs, successfully introduced policies and procedures to drive company-wide engagement in data capture and management.

## Tips

- » Elevate the importance of GHG data capture and storage within the organization to senior level management to encourage participation and support.
- » Consider internal reporting tools to provide transparency and drive accountability for data capture and storage.





## Chapter 2

# Calculating GHG emissions for reporting and disclosure

After you've established finance-grade system and process to capture and manage your sustainability data, the next step is to calculate your greenhouse gas emissions for reporting and disclosure.

The Greenhouse Gas Protocol, developed by the World Resources Institute and World Business Council for Sustainable Development, have developed a number of accounting standards that help organizations track and measure their progress towards decarbonization. These guidelines inform the 'E' in ESG reporting across many frameworks such as CDP, GRESB, SASB, and DJSI.

Here are the key areas to focus on to prepare your sustainability data for GHG accounting, reporting and disclosure.



## Establish the technical criteria and baseline for reporting

Be clear on your baseline. All reporting frameworks require organizations to draw a clear line in the sand against which to measure progress. This baseline, or existing carbon footprint, is the marker which all future improvements will be measured against, so ensuring your baseline is accurate and appropriate is essential.

### When setting your baseline, consider:

- » how you will define the boundaries of your activities.
- » how you can structure your data so it can be easily compared to future activity.
- » what date is the most appropriate to use (you will want to ensure your historical work on carbon reduction initiatives is not discounted).

Understand the technical requirements and considerations of the commitments you are making. Be really clear on your objectives, and take the time to ensure you understand the varying technical criteria associated with each pledge platform, commitment or reporting framework and how they may conflict with each other; for instance, does the pledge platform allow for the use of green energy already on the grid?

## Can you source the required data?

Before any commitments are made, it's important to understand what data types you will need, and the level of granularity required. Signing up to a commitment when you have no way of accessing the data required to measure progress toward your goal happens more often than you'd think and can be the source of many headaches.

## Using resources to simplify GHG accounting

Every business is different, so it's important to either build internal knowledge or engage a consultant for support. Once a strategic approach is in place, ensure that your sustainability platform can capture renewable energy certificate allocation decisions, store and manage your emission factors and calculate your emissions inventory, including your market-based emissions.





## Be diligent in selecting and applying emission factors

Emissions factors form the basis for GHG calculation. Using the correct emissions factors is essential for GHG calculation, but the selection, sourcing, allocation and management of factors presents a range of challenges.



How do we select the most appropriate factors for our organization? Here are three primary considerations.

### **Region**

Consider location factors that are as granular as possible. Assuming you have presence in multiple locations, consider setting state-level regions over a full country-based region. This will allow for more nuanced accounting relative to state policies, guidelines, private utility companies, etc.

### **Reporting period and factor period**

Use the most recent period with granular detail to ensure the most relevant data.

### **Emission source**

Make sure to follow GHG accounting principles closely as choosing incorrect factors can cause significant errors. For example, for ground travel emissions, are vehicles running on diesel or gasoline? If gasoline, is there a biofuel content?

## Staying organized when calculating GHG emissions

Many organizations run their annual GHG accounting process using spreadsheets, which leads to enhanced risk and productivity loss – especially for complex, global organizations that report to multiple frameworks. [Sustainability software](#) can help you stay organized by automating data capture directly from the source and maintaining an emission factor engine for nationally-recognized carbon emissions factor data tables such as the US EPA (Climate Leaders), e-GRID USA, IPCC, IEA National Electricity Factors, Australian National Greenhouse Accounts, DEFRA (UK), and NZ Ministry for the Environment.

## Establish consistency and reliability in data and processes

Certification is typically a multi-year process increasingly subject to third-party audit. Your GHG accounting practices must support reliable, consistent reporting that eases the audit process and allows for year-on-year repeatability and comparison.

### Keep detailed records.

Keeping an up-to-the-minute record of calculations and their inputs will save headaches at audit time. It's imperative that you keep track of decisions and the reasons for them, store supporting paperwork and maintain a clear record of any changes made to the data used for certification.

### Maintain data quality.

Effective data maintenance requires dedicated focus, regular attention and clear lines of responsibility. Use reporting tools to keep track of data gaps and regularly interrogate data records to assess data quality.

### Secure ongoing stakeholder engagement.

While commitments, targets, strategy and GHG accounting may stem from one team within your organization, the data needs to be sourced from a much larger pool of internal stakeholders. Ideally, a diverse group will be engaged in and accountable for collecting and sharing data from their representative business units and can help flag potential gaps in the ability to collect data. Getting everyone's buy-in can be difficult so it's important to be mindful of the challenges and to not underestimate the effort required to address this issue up front.



### Sustainability leaders we work with tend to:

- » Have senior level staff visibly engaged in sustainability performance.
- » Have an engagement plan in place that maps the vision and criteria for stakeholder communication efforts.
- » Use internal reporting tools to inform and engage stakeholders.
- » Stay up to date on changes in reporting frameworks. The rules associated with emissions reductions frameworks, guidelines and pledge platforms are maturing and remain subject to regular change. Keeping abreast of updates and modifications is essential. Signing up to update alerts from the relevant reporting authority and keeping in regular contact with your data management and reporting platform provider and your specialist consultant can help support your decarbonization efforts.

## Chapter 3

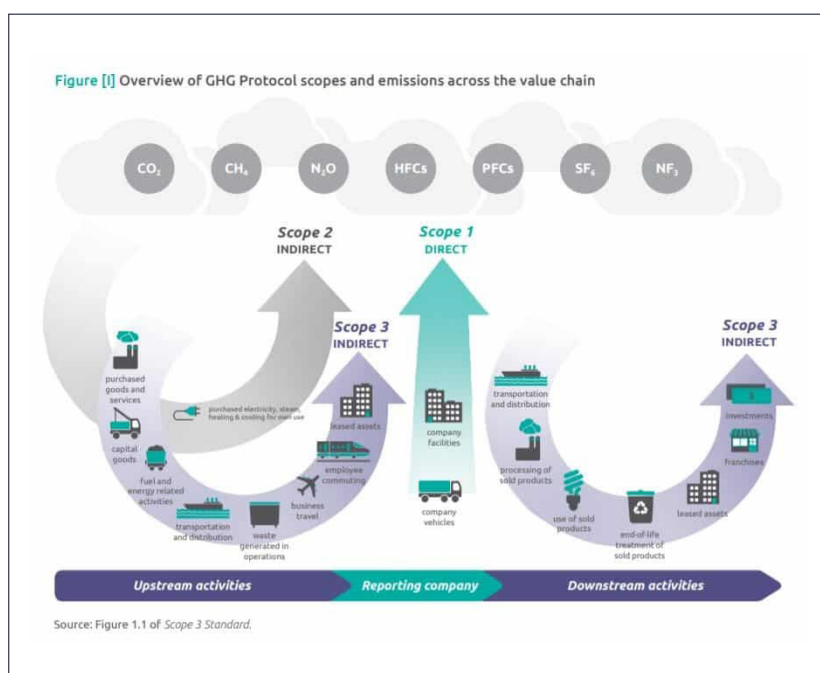
# Mastering the complexities of GHG accounting

As ESG reporting becomes increasingly complex, so too have GHG accounting methodologies and practices. As GHG accounting continues to evolve and attract more scrutiny, complexities are emerging that can trip up even experienced reporters.

Under the GHG Protocol Corporate Standard, GHG emissions are divided into scopes for calculation and reporting. Scope 1 includes all “direct” emissions from an organization, which includes company vehicles, fugitive emissions from manufacturing processes and fuel combustion onsite (such as burning gas to

produce heat). Scope 2 encompasses “indirect” emissions from the consumption of purchased electricity, heat or steam.

Scope 3 requires organizations to look for implications of carbon emissions outside of their direct physical footprint, quantifying emissions through the supply chain outside of the organization’s direct control. This includes embodied emissions within resources consumed by the organization — paper used, waste produced, coffee consumed — and also the emissions of any suppliers, which are especially important to organizations that produce physical products.



Scopes 1 and 2 are the most controllable scopes for GHG accounting and reduction, and the focal point of any decarbonization journey. But for leading organizations under investor pressure and looking to expand their impact, Scope 3 emissions provide the opportunity to reach other emitters in their value chain – such as suppliers and customers – and influence them to reduce their emissions.

Here’s how to approach the most challenging scopes and calculation methods with confidence.

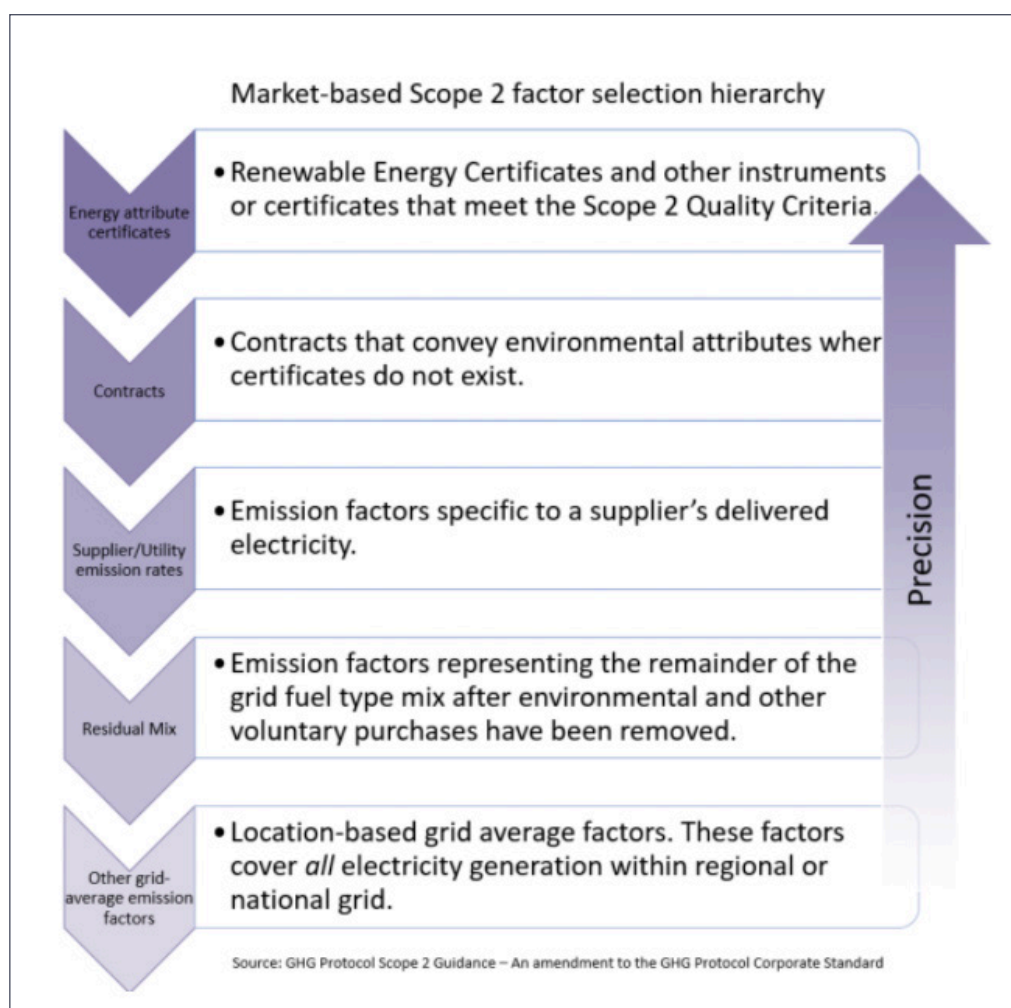


## Accounting for renewable energy purchases with the market-based method

Several years ago, the GHG protocol updated the reporting standard to require two methods of Scope 2 emission calculations: the location-based method and a newer, market-based method.

Traditionally, organizations were required to report their Scope 2 emissions based on a standard set of grid-average emissions factors. Following this approach, known as the location-based method, all emission-reduction efforts should be excluded from the GHG inventory. Initially this made sense, as it enabled organizations to be compared fairly. It did, however, prevent some organizations from showcasing their efforts, or taking credit for their green power purchases in their emissions totals. The Scope 2 market-based approach addressed this issue.

The market-based approach instructs organizations to apply Energy Attribute Certificates, or EACs, such as renewable energy certificates (RECs) or guarantees of origin to their consumption and then source emission factors from contracts or suppliers where available.



In instances where consumption is not covered by EACs or other factors, residual mix factors are applied to consumption. Residual mix factors are similar to grid-average factors but are calculated based on electricity generated from non-renewable sources (oil, gas, coal, etc.) or other sources not backed by EACs. If residual mix factors are not available for a region, then standard grid-average factors should be used, as they are in the standard location-based method.

Using the market-based method should prove helpful as your organization pursues intentional procurement of clean and renewable energy.

The first step of this accounting process is to understand your organization's electricity purchases. There may be a mix of sources, especially if the organization works across various regions. Once tallied, contact each supplier and collect their emissions factors as comprehensively as possible.

If your organization purchases renewable electricity directly, the EACs already should exist and are known as "bundled certificates." These certificates also can be purchased separately from electricity and are known as "unbundled certificates." Use GHG Protocol's Scope 2 Quality Criteria to ensure that these certificates can be used. Unbundled certificates must be allocated across your organization according to the Quality Criteria, with careful attention to points 4 and 5.



Point 4 requires that certificates are "issued and redeemed as close as possible to the period of energy consumption to which the instrument is applied." This means it would be incorrect to allocate certificates issued in 2018 to electricity consumption from 2021.

Point 5 requires that certificates are "sourced from the same market in which the reporting entity's electricity-consuming operations are located and to which the instrument is applied." This means that it would be incorrect to allocate certificates issued in the U.S. to consumption in the U.K.

If your organization has power purchase agreements, the certificates may not exist. In this scenario, determine the emissions factor tied to the contract and document accordingly. Only use the publicly available residual mix emission factors that are within the region that is being accounted for if the supplier's direct information is not accessible.

This calculation method can prove complex, which is why [Envizi can support](#) both location and market-based calculation methods.

## Scope 3 reporting: the challenge and opportunity

Scope 3 emissions present a significant opportunity for organizations to engage their suppliers to accelerate decarbonization globally. Supply-chain measures put in place by relatively few end-consumer companies can yield a significant flow on affect by reducing emissions for numerous organizations in the supply chain.

But not without hard work. There are significant barriers that exist to report and reduce scope 3 emissions.

The following challenges are most commonly cited:

- Difficulty establishing boundaries between scopes
- Difficulty capturing reliable data in a systematic and auditable way across numerous suppliers and locations
- Difficulty selecting emission factors to derive accurate calculations
- Challenges engaging with suppliers to both report and reduce emissions

Reporting and reducing Scope 3 emissions is of most immediate relevance to organizations who report to CDP or have committed to Science Based Targets; and it has the most impact for organizations that operate in one of the eight supply chains that account for over 50% of global emissions – namely food, construction, fashion, fast-moving-consumer-goods, electronics, automotive, professional services and freight.

## Four steps to calculate and report on Scope 3 emissions

ESG reporting software like [Envizi](#) can prepare organizations to meet this challenge, and simplify what may seem like a daunting task to calculate and report Scope 3 emissions. With over a decade of experience supporting sustainability leaders to streamline ESG reporting against all scopes, we recommend a systematic approach that's been tried and tested by our clients.

### **Step 1. Determine which Scope 3 emissions categories and data types are most material (and open to influence) to your organization's footprint.**

One of the biggest challenges is establishing the boundaries for your Scope 3 data; determining which emissions categories, and which suppliers / data types within each you will report. The most relevant Scope 3 emissions categories vary greatly both between and within industries. We recommend working with consultants or knowledgeable internal staff to apply the “relevance test” to determine the boundaries of your scope 3 reporting.



## **Step 2. Establish a strategy for capturing the best information in the most efficient way.**

After you've determined the boundaries of your Scope 3 reporting, the next step is to determine where you can source the data.

A consultant can help you assess if you have access to primary or secondary activity data and where this data can be sourced. For example, you might already have data on purchased goods and services in your organization's accounting system, or you might be able to source data directly from your suppliers.

Envizi's ESG reporting software supports this process by automating data collection from existing systems where available – helping to reduce manual errors, version confusion, or productivity loss. Envizi provides a flexible data structure to enable large organizations to easily set and change reporting boundaries, ensuring your GHG emissions calculations stay up to date as your organization changes. Additionally, we provide traceability to the source of data and an audit trail noting when changes were made to the dataset, and by whom. This helps reduce the risk of manual errors.

## **Step 3. Calculate emissions for each category using the most appropriate emission factor(s) and/or method(s).**

After you've set your scope 3 boundaries and where you will source your data, you can determine which emission factor and calculation is most appropriate. Each category of Scope 3 emissions demand different emission factors and/or calculation methods, depending upon what information is available. For example, for category 1- purchased goods and services, if you only have access to spend data (dollar value) without a volume, quantity or weight for an item, you'd use the spend-based method and apply an emission factor to the dollar value to derive your emission calculation for that supplier. In other cases where you have a cradle-to-grave emission factor from the supplier, you can apply the supplier method.

[Envizi](#) can capture and store publicly available emission factors from lifecycle data tables, as well as from US EPA (Climate Leaders), IEA National Electricity Factors, IPCC, as well as custom emission factors. We then apply our emissions engine and hierarchy management tools to derive GHG emissions calculations at any level of the organization – whole of enterprise, reporting group, location or sites.

### Step 4. Disclose progress and drive performance.

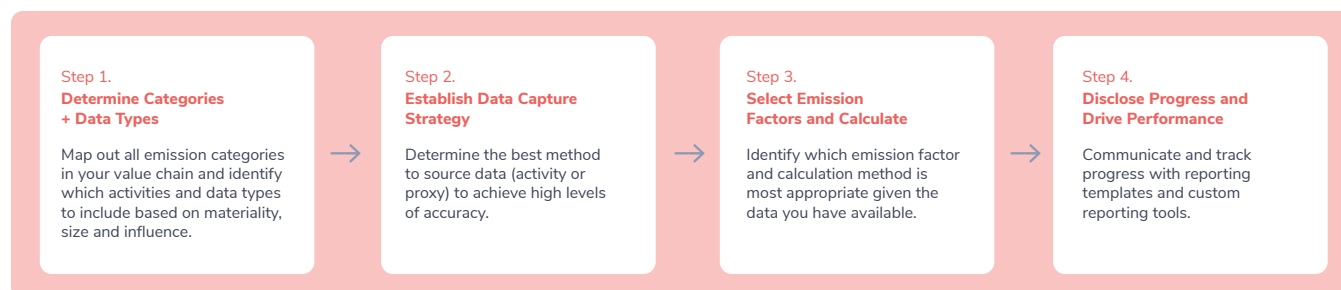
Envizi organizes your GHG emissions data into a single source of truth and streamlines submissions to common sustainability guidance and reporting frameworks like CDP, GRI, ENERGY STAR and GRESB with pre-built templates aligned to their requirements.

In addition, Envizi provides insight to drive performance improvement in the form of internal reports that highlight emission reduction opportunities, workflow management tools such as KANBAN boards to encourage clear tracking and accountability for data capture tasks, and performance reports that keep key stakeholders informed of progress.

#### For the Scope 3 Reporting process, consider these suggestions:

- » Sustainability software can automate what otherwise would be a painstaking manual data collection process, using electronic data interchange (EDI) and artificial intelligence (AI) technology.
- » Be prepared to rely on manual surveys and conversations with individuals that represent your organization’s supply chain for some of the data collection.
- » Maintain flexibility in the data structure between various factors. Data files provided from various supply chain members will be formatted in different ways, and your data framework must be flexible enough to ingest, process and analyze this data.
- » During each step, keep a detailed, thorough audit trail to explain the approach and document decisions.
- » Use project management and engagement tools such as Kanban boards to keep the group of stakeholders informed of the process.
- » Consider seeking advice from a specialist or consultant. They can help resolve the challenges related to geographic spread and data management confusion.

### Four Steps to Calculate and Report Scope 3 Emissions

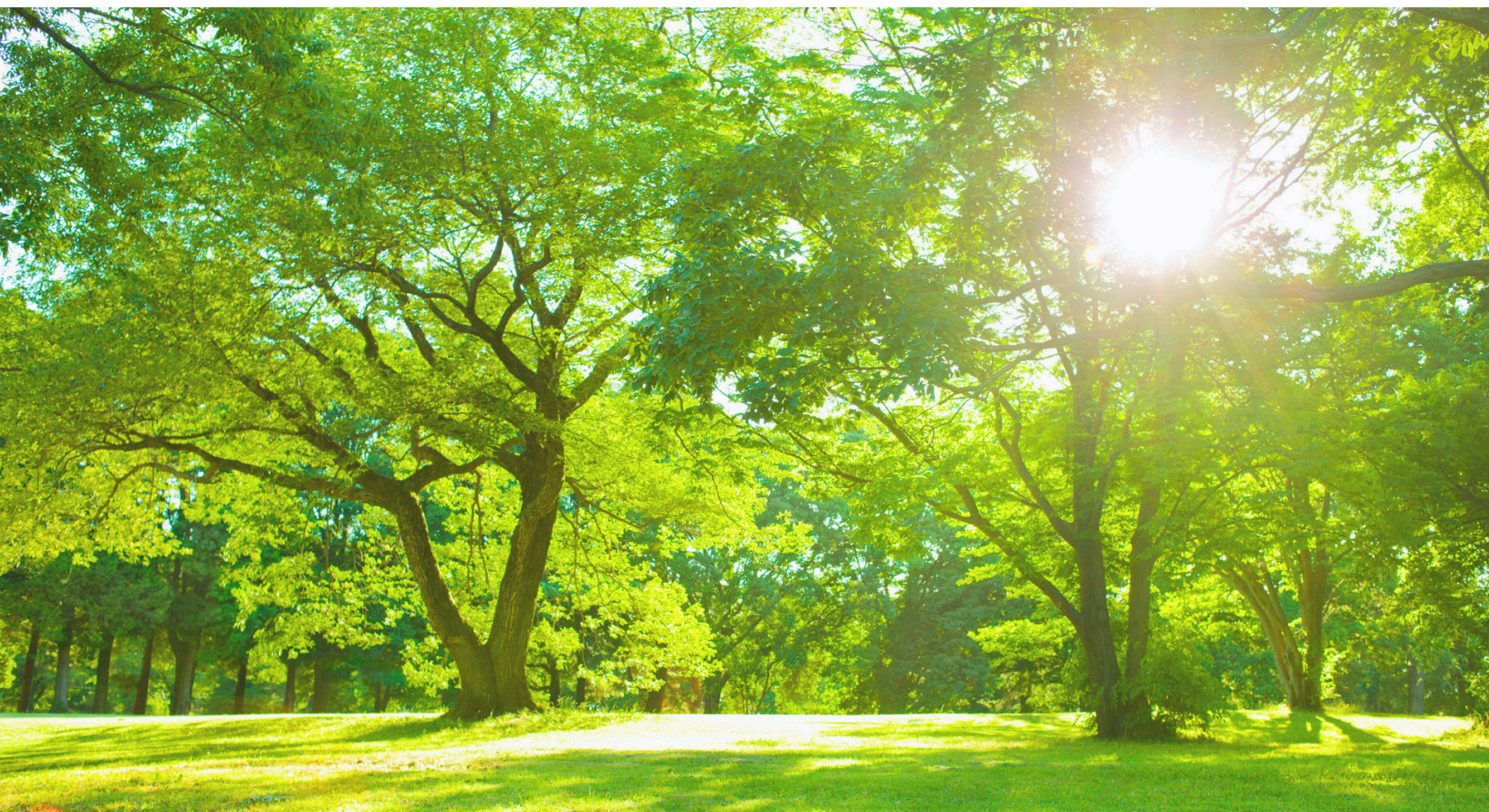


# Conclusion

Investors are including ESG metrics in their evaluation of organizational performance and organizations are making public commitments to deliver on these outcomes. One of the most widely used ESG metrics is the Greenhouse Gas Emissions. Therefore, the processes and tools to capture and manage emissions reduction performance must meet the same robust requirements applied to financial data.

As is the case for all strategic decision making, data must lie at the heart of any effective decarbonization strategy — to inform strategy and tactics and to deliver robust and verifiable reporting.

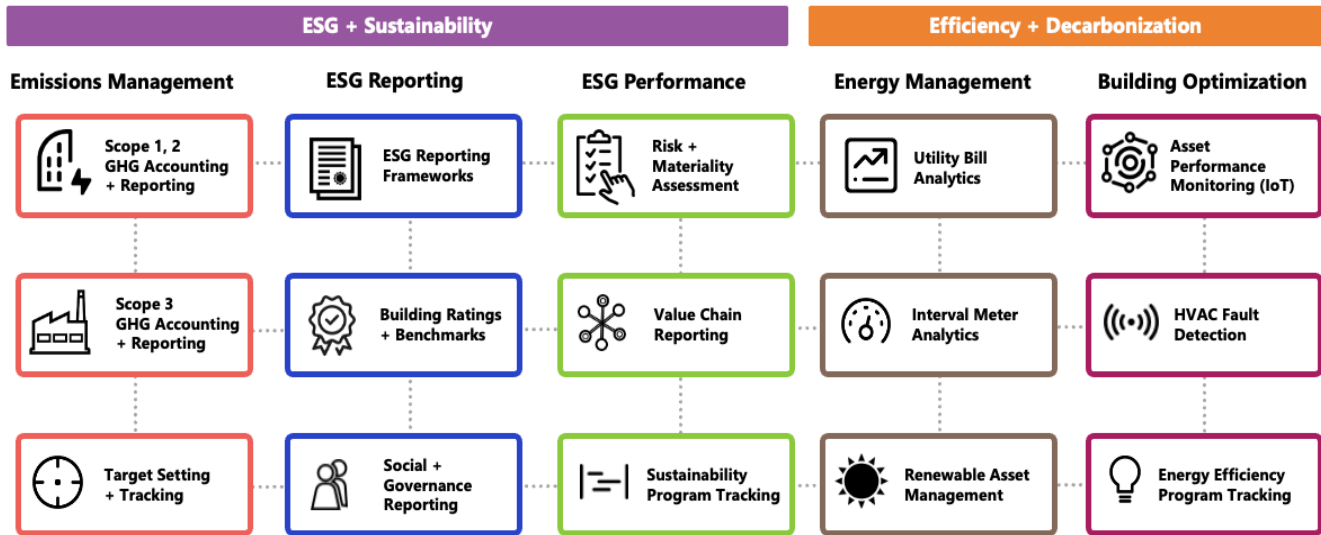
Sustainability and energy teams willing to adopt best practices for data management will reap the benefits of robust processes and systems, underpinned by technology to support data driven decisions, to track and measure the outcomes of their emissions-reduction efforts and to efficiently and effectively support their reporting commitments.





# About Envizi

Envizi is a global leader in data and analytics software for ESG reporting and performance management. Whether you are on the sustainability team, heading up energy management, working in procurement and finance, managing facilities or are a C Suite executive, Envizi provides the insight you need.



## Contact us

Envizi is a global software specialist, with teams located in the US, UK, Canada, and Australia.

### San Francisco

T: +1 925 858 4380

### Toronto

T: +1 365 651 2599

### Sydney

T: +61 2 9209 4300

### London

T: +44 203 929 0539

[FIND OUT MORE](#)