ESRS requirement to disclose information on energy consumption and structure 2/12/24

European Sustainability Reporting Standards (EU) 2023/2772 ('ESRS') require companies to disclose information on their energy consumption and structure. This article explores the disclosure requirement and why you should view it through the prism of opportunities.

ESRS E1 Disclosure Requirement E1–5 requires companies to disclose information on their consumption of energy and on their structure of energy sources. This requirement is designed to give the user of a sustainability report an understanding of your company's total energy consumption, energy efficiency improvement initiatives and their effectiveness, and the percentage of fossil and renewable energy sources in your total energy structure. It's important to remember that the term 'energy sources' covers three large categories – thermal energy, transport energy and electrical energy, but reporting will be required on the consumption of energy from primary sources.

Primary sources are used to obtain electrical energy, thermal energy or transport energy. Companies will have to report three groups of primary energy sources:

- Fossil energy sources;
- Nuclear energy;
- Renewable energy sources broken down as follows:

  - biomass, biofuel, biogas, renewable hydrogen etc.

  - consumption of electrical energy, thermal energy, steam and cold for renewable energy, whether purchased or obtained;

  - consumption of own produced renewable non-fuel energy.

Companies operating in sectors with a high climate impact[1] will have to disclose information in a more detailed breakdown:

- Consumption of fuel from coal and coal products
- Consumption of fuel from crude oil and oil products
- Consumption of fuel from natural gas
- Consumption of fuel from other fossil energy sources
- Consumption of electrical energy, thermal energy, steam or cold for fossil energy, whether purchased or obtained

Preparations before reporting

Getting ready for Disclosure Requirement E1–5 means your company will have to start off by identifying ways to obtain information on your consumption of electrical energy, thermal energy and transport energy, and on the sources of primary energy consumed. It will be particularly important to find ways of obtaining this information and automating the necessary data aggregation processes in your company to avoid manual work leading to errors and to identify your total consumption for full reporting. The next step is to obtain detailed information on the primary sources of energy consumed to produce the energy you buy. To obtain this information, your best plan is to reach out to your energy provider, who will often be able to give a very specific answer to this question.

Data aggregation helps evaluate the present situation in your company and calculate your CO2 emissions, a significant step towards setting your CO2 reduction targets and finding ways to achieve this goal.

Revising your energy structure helps you save money and become more resilient to energy price fluctuations

It's important to be proactive because this gives you time to evaluate what tools for reducing energy consumption are appropriate and economically sound. The easiest tool that does not require a big investment from your company but puts electricity dealers under pressure to buy renewable electrical energy is Guarantees of Origin.[2] These will confirm that your company is funding a renewable energy project and using renewable energy in business.[3] A larger project will be the installation of sustainable technology, such as using solar panels to produce electricity. While this is a serious investment, the current electricity prices mean the payback period for solar panels is considerably shorter than their life cycle. This is why it's important to be proactive and maximise the financial benefit to your company, with the payback period for renewable energy technology being closely linked to the market price of electricity. While it's high, renewable technology pays back faster. If you only look at energy greening from a compliance perspective, your company risks making these decisions considerably later and missing the chance to save money. Given the rather volatile market and the record prices of electricity we have seen on several occasions over the last three years, renewable energy sources will give you stability and minimise the implications that would otherwise affect your business costs considerably.

When it comes to getting ready for sustainability reporting, you need to analyse the ESRS requirements and identify topics potentially applicable to your company, as well as conducting a double materiality assessment. Next, you need to identify the availability of information in your company and eliminate any shortcomings you have detected. Having completed these activities, you can make data-based decisions that will help you make your company more competitive in the long-term and achieve the desired results.

Our team of sustainability experts are happy to assist companies with their sustainability projects, from building an understanding to preparing reports. Feel free to get in touch with us and book a consultation.

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[1] High impact climate sectors are defined as NACE A–H and L sectors under Commission Delegated Regulation (EU) 2022/1288.

[2] More information on Guarantees of Origin can be found here.

[3] While it's physically impossible to determine electricity supply routes, financially companies can purchase energy from renewable sources and include this renewable part in their energy structure.