Greenhouse Gas Protocol Standards Update Process

Detailed Summary of Responses from Scope 2 Guidance Stakeholder Survey

July 2023

Executive summary (Full Summary available here)

Background on Scope 2 Guidance: The *Greenhouse Gas (GHG) Protocol Scope 2 Guidance (Scope 2 Guidance),* published in 2015, requires dual reporting of indirect emissions from purchased electricity, steam, heat, and cooling using two distinct methods: location-based and market-based reporting. The location-based method assigns emissions based on the average emission intensity of the grid(s) in which an organization operates, while the market-based method allocates emissions based on the specific electricity purchase decisions an organization makes. These methods were designed to meet the objectives of the *GHG Protocol Corporate Standard* and *Scope 2 Guidance*, which are to help companies accurately report their value chain GHG emissions by using standardized approaches, reduce the costs associated with compiling a GHG inventory, provide information for effective emission management strategies, facilitate participation in GHG programs, promote consistency and transparency in accounting, understand risks and opportunities related to electricity consumption, identify internal reduction opportunities and track performance, engage energy suppliers and partners in GHG management, and enhance stakeholder information and corporate reputation through transparent reporting.

Updating Scope 2 Guidance: Since its publication, the *Scope 2 Guidance* has been used by thousands of organizations and there have been many important developments in GHG accounting. These include new regulations which mandate climate-related disclosures, a steep increase in the adoption of net-zero targets, and research on the use and impact of the guidance and standards. To ensure the GHG Protocol continues to effectively support and enable these developments, the GHG Protocol began a formalized process in 2022 to update the *Scope 2 Guidance*. This process, the next steps of which are outlined below, is guided by the principle of providing robust GHG accounting standards and guidance for organizations to measure progress towards science-based, net-zero targets aligned with the global 1.5°C goal. In addition, a key goal of the update is to harmonize and align with accounting rules developed by major regulatory and voluntary disclosure and target-setting programs and initiatives.

Scope 2 Guidance Survey background: Following discussions with over 1,000 stakeholders about the effectiveness and appropriateness of the current *Scope 2 Guidance* as well as proposed alternative accounting methods, the GHG Protocol secretariat solicited written feedback through an online survey between November 2022 and March 2023. This survey was one of four conducted to gather feedback on various options for updating or maintaining the current suite of GHG Protocol corporate standards and guidance. The "Scope 2 Survey" received over 400 responses in addition to roughly 70 detailed proposals from stakeholders explaining whether they wanted the standard changed and why. Survey respondents included businesses,

academia, non-profits, industry groups, the power sector, and government institutions, among others.

Scope 2 Survey summary: This draft Scope 2 Survey Summary Report provides an overview of responses from all survey respondents and highlights common themes. This summary will be used to inform further stakeholder discussions around key revisions to the *Scope 2 Guidance* and related GHG Protocol standards. Responses ranged from suggestions of minor edits and/or additional guidance to major revisions. Some feedback also included critiques of potential new scope 2 accounting requirements or alternative methodologies popularized in concept after the publication of the original Scope 2 Guidance. The following summarizes major points of feedback from the survey.

- **Modifying the structure of and process to update GHG Protocol standards**: The *Scope 2 Guidance* is one of several GHG Protocol publications detailing how organizations account for and report their value chain GHG emissions. Other documents include the *Corporate Accounting and Reporting Standard* (2004), *Corporate Value Chain (Scope 3) Standard* (2011), and *Scope 3 Calculation Guidance* (2013). A large volume of feedback suggested that the GHG Protocol should consolidate its requirements across all these documents, i.e., scope 1, scope 2, and scope 3 into a single document to streamline accounting and reporting. A regular process of updating the standards to keep up with a rapidly evolving GHG management and climate action ecosystem was also suggested.

- **Creating alignment with voluntary and regulatory climate disclosure programs**: Respondents strongly urged the GHG Protocol to coordinate closely with voluntary target- and goal-setting programs such as the Science Based Targets initiative (SBTi) and regulatory developments which mandate climate-related disclosures, including the EU Corporate Sustainability Reporting Directive (CSRD), the US SEC's proposed rule on climate-related disclosures, and the International Sustainability Standards Board (ISSB) standards developed by the International Financial Reporting Standards (IFRS).

- **Reviewing the objectives of scope 2 reporting:** Many respondents provided feedback on the appropriateness of the current objectives, if the objectives have been achieved in practice, and whether or how they should be amended going forward to align with the GHG Protocol's evolving purpose and role facilitating voluntary target-setting programs as well as emerging climate disclosure mandates.

- **Updating dual reporting requirements**: There was significant feedback representing multiple perspectives on the usefulness, appropriateness, implementation, and overall results of the dual reporting requirement. Some respondents recommended maintaining dual reporting with various modifications to the location-based and/or market-based methods, while other respondents suggested that only one of the two methods should be required. Support for the location-based approach emphasized that it appropriately represents emissions throughout the reporting entity's value chain. Support for the market-based approach emphasized that it is necessary to account for purchased energy

attribute claims, which may differ from the actual energy flow in the grid. Many respondents proposed improvements to the location- and/or market-based methods. Some favored more specific requirements. Others preferred maintaining flexibility while supporting interpretation or adaptation by other emissions reporting and/or target-setting programs.

- **Requiring granular time and location criteria**: Respondents wanting more specific requirements frequently referred to studies that demonstrate the importance of using detailed data to ensure any emission reductions claimed in a GHG inventory are closely correlated with actual atmospheric GHG emission reductions. For example, some emphasized the need to consider the specific emission intensity of the electric grid on an hourly basis when determining scope 2 emissions. These responses also advocated that clean energy purchases should only be accounted for when the carbon-free resource is on the same grid as the facility(ies) claiming to use power therefrom. These measures were seen as essential for accurately tracking the progress of emission reductions. However, some respondents expressed concerns about the difficulties and practicality of implementing these specific requirements. For example, some said that it might make it more difficult for organizations to participate in clean energy purchasing programs due to the challenge of collecting hourly electricity consumption data, limited procurement options to buy clean energy tracked on an hourly basis, and uncertainty identifying whether a clean energy resource could actually provide electricity to facilities that claim to be consuming the energy.

- **Allowing flexibility in time and location criteria:** Those in favor of flexible interpretations stressed the need for accounting standards and clean energy procurement opportunities that are feasible to implement for organizations of all sizes, sophistication levels, and global regions. They generally supported maintaining the current flexibility in the *Scope 2 Guidance*, which allows the use of emission factors averaged over a year instead of shorter intervals. Additionally, they advocated for the continued ability to purchase energy attribute certificates (EACs), like guarantees of origin (GOs) or renewable energy certificates (RECs), from larger regions with common EAC trading markets, rather than being limited to grid boundaries that require some degree of physical electricity delivery. However, many comments also pointed out that the flexibility inherent to the current approach often leads to less-than-ideal outcomes. They expressed concern that under the current framework the reported reductions in an organization's emissions inventory may not actually correspond to overall reductions in the atmosphere.

- **Calling for new emission impact-based reporting approach**: Some comments proposed a change from, or addition to, current inventory accounting methods to a new approach for demonstrating the emission reduction effects of buying clean energy. This approach, similar to project-based accounting, involves accounting for the emission reductions resulting from replacing carbon-intensive power plants with cleaner energy sources. It also considers load management strategies that optimize increased energy consumption at times when clean energy is abundant and reduced energy consumption

at times when the grid relies on more carbon-intensive resources. Most of these comments suggested calculating this information using marginal emission factors instead of average grid emission factors because marginal rates reflect how emissions incrementally change in response to new clean energy resources or changes in demand for energy. Respondents posited that this method would provide stronger incentives for investing in grids that have the greatest potential for reducing carbon emissions compared to current market- and location-based inventory accounting methods. However, concerns were raised about the compatibility of this method with existing inventory methodologies and science-based, net-zero targets, as well as practical implementation, including issues with data accessibility and technical limitations.

- **Requiring additionality criteria**: The topic of additionality, wherein an action must result in emissions reductions beyond what would have occurred in the absence of that action, was discussed in the context of both market-based accounting as well as under any new impact-based methodology. Support for introducing an additionality requirement emphasized its necessity to ensure inventory emission reduction claims more clearly align with atmospheric emission reductions. Feedback in support of maintaining the current practice emphasized that the concept of additionality is inappropriate to apply to the market-based method because the market-based method allocates energy usage rather than offsetting emissions. Responses also highlighted distinctions between electricity "usage claims" from "impact claims," suggesting additionality only be applied in impact-based claims.

- **Adding clarifications and new guidance**: Respondents also provided various suggestions for adding clarifications and new guidance, including specific use cases, new technologies, and data. Examples included: encouraging the GHG Protocol's involvement in developing global emission factor databases; updated guidance for purchased steam, heat, and cooling; clarification on transmission and distribution (T&D) losses; clarifying overlaps between accounting for emissions in scope 2 or scope 3 category 3; and creating guidance for specific use cases like electric vehicle charging, and leased assets, and other activities.

Next steps: We encourage all interested stakeholders to read the full draft Scope 2 Survey Summary Report. If you or your organization completed the survey and believe that the main feedback in your original response is not accurately reflected in the draft summary report, you are invited to provide feedback on this draft summary here by Friday, September 8th. This will help ensure that the GHG Protocol update process appropriately captures all major points raised in the stakeholder survey process. The GHG Protocol secretariat will then publish a final summary report shortly thereafter.

The final summary report will support the development of specific workplans for scope 2 updates and related GHG Protocol standards, to be developed through technical working groups and other committees as part of the standards updates process. In addition, the GHG Protocol secretariat will continue to solicit new information and review relevant new research studies on scope 2 as they become available throughout the update process.

Concurrently, the GHG Protocol secretariat is communicating with organizations that submitted a scope 2 proposal for detailed discussion of their proposals. The GHG Protocol has tentatively identified several common themes within the scope 2-related proposals submitted, which reflect similar themes that emerged from the Scope 2 Survey responses presented in this summary.

The next phase of stakeholder engagement will center on transparent evaluation of these proposals. The goals of this work are to support widespread understanding of the proposals and GHG Protocol accounting and reporting principles. The results of these sessions and this summary of survey responses will help inform the initial topics and deliberations for the scope 2 technical working group.

In tandem with this process, the GHG Protocol is finalizing a new governance structure. The GHG Protocol's updated governance will provide overall strategic direction and oversight of the standards update process. Information about the standards update process and opportunities to participate will be shared with subscribers to the GHG Protocol newsletter via email. If you'd like to receive email updates, please subscribe to the GHG Protocol newsletter here.

Full summary available here.