Scope 3 TWG Group A Meeting Minutes

Meeting number 4

Date: 9 January 2025

Time: 17:00 – 19:00 ET

Location: Virtual

Attendees

Technical Working Group Members

1. Sahil Aggarwal, Greenview
2. Nasser Ayoub, EPD International
3. Alissa Benchimol, Greenhouse Gas Management Institute
4. Zola Berger-Schmitz, Science Based Targets initiative
5. Bin Chen , Fudan University
6. Dario Alessandro De Pinto, BANCA D'ITALIA
7. Verena Ehrler, IESEG School of Management
8. Talita Esturba, WayCarbon
9. René Garrido, Universidad de Santiago de Chile
10. Susanne Vedel Hjuler, Independent
11. Michael King, Cisco Systems, Inc.
12. Christoph Meinrenken, Columbia University
13. Elliot Muller, CIRAIG, Polytechnique Montréal
14. Julie Sinistore, WSP
15. Sangwon Suh, Watershed
16. Francesca Testa, CDP
17. Carl Vadenbo, ecoinvent association
18. Cecilia Valeri, WBCSD
19. Luhui Yan, Carbonstop

Guests

N/A

GHG Protocol Secretariat

1. Natalia Chebaeva
2. Alexander Frantzen
3. Claire Hegemann
4. Iain Hunt
5. Allison Leach
6. David Rich

Documents referenced

1. Discussion Paper A.1 Inventory Quality
2. Scope 3 – Group A – Meeting#4 – Presentation
3. TWG member proposals

Summary

Item	Topic and Summary	Outcomes
1	***Housekeeping*** The Secretariat presented the housekeeping rules.	N/A
2	***Recap of the previous discussion*** The Secretariat presented a summary of previous discussions and decisions. The Secretariat outlined the feedback received from the TWG members after the previous meeting and provided its response.	N/A
3	***Goals and approach for the meeting*** The Secretariat introduced the goal for the meeting and the suggested approach to consider the proposals.	N/A
4	***Introducing the proposals*** The Secretariat briefly presented the submitted proposals.	N/A
5	***Breakouts*** The Secretariat presented the setup for the breakout discussions. In two breakout rooms, the group discussed the proposals, highlighting the strengths and weaknesses of the proposed approaches, as well as potential dimensions of a tiered approach solution.	N/A
6	***Presentation of outcomes*** The group reconvened to summarize the discussion. An indicative polling was held to determine which proposals received the most support versus the most opposition.	N/A
7	***Next steps*** The Secretariat presented the next steps.	N/A

Discussion and outcomes

1. Housekeeping

- The Secretariat presented the housekeeping rules (see slides 4 - 6).

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- N/A

2. Recap of the previous discussion

- The Secretariat presented the slides with the summary of the progress and the decisions taken so far (slides 8-9)
- The Secretariat presented the feedback received from TWG members after the previous meeting, and provided its response (slide 10)

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- N/A

3. Goals and approach for the meeting

- The Secretariat introduced the goal of the meeting, as well as the suggested approach regarding the proposals (slides 12- 14)

4. Introducing the proposals

- The Secretariat briefly presented the submitted proposals, and highlighted the importance of alignment on terminology in discussions (slides 16 - 25)

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- N/A

5. Breakouts

- The Secretariat presented the logistics of the breakout discussions. (slides 28 – 31).
- In two breakouts, the group discussed the proposals, highlighting the strengths and weaknesses of the proposed approaches, as well as potential dimensions of a tiered approach.

Discussion

- A TWG member inquired if the solution sought should be applicable to all 15 categories, and to scope 1 and 2 reporting. Another TWG member highlighted that applicability to scope 1 and 2 is beneficial for value chain action, as scope 3 is other players' scope 1 and 2. The Secretariat clarified that the solution has to be applicable for all 15 categories, with a preference for it being applicable for to scope 1 and 2 as well. The group's recommendations will be handed over to other workstreams for potential alignment, with the Corporate Standard TWG considering data quality in phase 2 of its work.

Summary of discussion in breakout room A:

- Proposal 1: Quantification, data quality rating and uncertainty
    - Several TWG members supported the simplicity and feasibility of the solution, including in geographies where companies are new to carbon accounting.
    - A TWG member noted that the proposal is focused on data quality and accuracy, sidestepping the complicated issue of quality of primary vs secondary data. The TWG member further noted the solution's scalability to the other scopes. The solution is easy for implementation when reporting on the tier 2 (default), , while more advanced preparers may report on more demanding tier 1.
    - A TWG member highlighted that this proposal is somewhat similar to proposal 7, in terms of utilizing data quality rating.
    - Several TWG members raised concerns about the subjective judgements regarding "very good" data. One of the members noted that judgement should ideally be based on a measure of uncertainty. The Secretariat noted that the proposal does include a less subjective categorization based on direct measurement and spend-based calculation.

- A TWG member highlighted that direct measurement would not be applicable to a wide range of companies. This terminology, rarely used by companies, may lead to subjective in interpretation.
- A TWG member noted that the combination of the spend-based method with other calculation methods in one tier does not incentivize companies to move away from the spend-based method. The member however highlighted that improvements may be tracked through moving from tier 2 to tier 1 over time.
- Noting the importance of interoperability, a TWG member expressed doubts if the suggested tiers would be used by other standards or methodologies, as they differ from already existing tiers.
- A TWG member expressed their opinion that most companies, especially in developing countries, would report on tier 2 due to the costs of direct measurement. Decision making to promote climate action is more facilitated in tier 1, however not always and not equally achievable for diverse preparers. The Secretariat agreed and highlighted that direct measurement might be more applicable in scope 1 and 2 accounting, making the proposal more relevant for scope 1 and two, and potentially facilitating the rollup of the data in the value chain.
- A TWG member noted the lack of verification element, highlighting that this reduces chances of better data quality in tier 1 in practice.

- Proposal 2: Primary and secondary data
  - A TWG member highlighted the alignment of the proposed approach with other frameworks and industry developments, as well as support from the industry due to simplicity and lower resources intensity for preparation. The TWG member then noted the need for alignment of terminology across different frameworks to focus on outcomes and improvements. The TWG member expressed the opinion that measuring emissions to optimize efficiency is a strong driving factor, and split between tier 1 (measured data) and 2 (modelled and calculated data) is pareto-optimal.
  - A TWG member expressed support for the proposal on the condition of terminology alignment with the ISO standards regarding primary and secondary data. The TWG member also highlighted that very little data would be classified in tier 1, and few companies would be able to report on tier 1 for more than category 4 or 9. The Secretariat drew a parallel between proposals 1 and 2, both of which have direct measurement in tier 1 and other data in tier 2.
  - A TWG member noted the benefit of simplicity and feasibility, similar to proposal 1, but raised concern about the quality of calculations and highlighted the potential benefits of adding a dimension on verification.
  - A TWG member drew a difference between activity data and emission factors in calculations, each of which can be primary or secondary. The TWG member asked how a combination of primary and secondary data would be handled according to the proposal. The Secretariat agreed, highlighting that primary emission factors are difficult to get. Another TWG member clarified that three categories would be considered: primary data (measured or calculated using primary source data), modeled data, or default values, and highlighted the importance of clear and detailed disclosure on this in reporting, for full transparency.

- Proposal 3: Data source, calculation method, and verification
  - A TWG member noted the focus of the proposal on quality of data, and the opportunity for preparers to track progress in more detail due to having three tiers. The TWG member assumed that achieving tier 1 may be challenging due to third party verification, but achieving it does reflect the quality of the data.
  - A TWG member expressed doubt regarding verification, stating that verification does not necessarily imply high accuracy while also posing significant costs which only large companies are able to afford.
  - A TWG member drew a parallel with proposal 1, and suggested that elements of the two proposals could be combined.

- A TWG member raised a concern that tier 2 in the proposal combines a wide range of calculations, practically equating non-verified supplier-specific data with proxy secondary data. The TWG member stated that this would not encourage companies to engage with value chain partners and would not fully align with the decision-making criteria. Another TWG member agreed that tier 2 includes a lot of different methods, however suggested the need for separation of verified and non-verified supplier-specific data to strengthen the connection between the source and data quality. The TWG member suggested creating another tier to sub-divide tier 2. Another TWG member supported these concerns and agreed with suggested solution (subdivision of tier 2). While the member agreed that supplier-specific data might not be perfect, engagement with value chain partners facilitates, enables, and accelerates action more than the use of secondary data.
- A TWG member agreed with the previous speakers but highlighted the need to specify against what framework the verification should be achieved, as following ISO 14067 may also use low quality data while receiving third-party verification.
- The Secretariat highlighted that supplier-specific / primary data in general shows to be of better quality, as raised in the previous TWG meeting. The Secretariat suggested that one of the solutions could be to restrict what can be called primary data or supplier-specific data.
- A TWG member stated that several proposals, including proposal 3, are more focused on upstream than downstream categories, and would "punish" categories that are forward looking and thus use modelled data. The TWG member suggested that the group should consider category-specific approaches to make sure the solution is implementable for all categories.

- <u>Proposal 4: Uncertainty</u>
  - A TWG member expressed the opinion that the proposed approach meets most decision making criteria, although it may be hard to implement. The member highlighted applicability of the proposed approach to all scopes and categories, and that over time implementation may become easier with provision of default values. The member suggested that the proposed approach may be combined with other proposals as an additional element (integration of uncertainty assessment). Several TWG members supported this idea.
  - Several TWG members agreed that this proposal is the most scientifically sound, but is difficult to implement, and imposing uncertainty assessment as a requirement may be too much for some companies. Two TWG members suggested that the approach could be kept as an optional element (e.g. for large companies, or as an add-on l onto the tiers).
  - A TWG member highlighted that several questions arise with regard to ability and rationale for companies, verifiers, and assurers to calculate uncertainties, the practicality of calculations by the preparers themselves, the granularity of assessment, and the transfer of uncertainty assessment along the value chain. The TWG member expressed the opinion that this may be facilitated by software providers and consultants but is rarely possible through inhouse teams. Another TWG member asked what a calculation method to calculate uncertainty would be.
  - A TWG member advocated for uncertainty to be a requirement rather than optional, as the purpose of the inventory assessment is to lower uncertainty. The TWG member highlighted that in practice this has shown to be feasible for national inventories, and that it would be useful to disclose total uncertainty of total inventory (scope 1, 2, and 3).
  - A question was raised on how reporting would be handled if a company does not assess uncertainty. The Secretariat clarified that in that case data may potentially be reported in the default (lowest) tier 3.
  - A TWG member posed a rhetorical question on how much the provided proposals support the principle of completeness. A preparer may report inventory by tiers but that would not provide information on the emissions that are excluded or not even calculated. The Secretariat clarified that the aspect of completeness and exclusions is being considered in the work of TWG subgroup B.

- <u>Proposal 5 & 6: Calculation methods</u>

  - The TWG member summarized the idea of the proposal to focus on already existent methods and their hierarchy, applicable to all 15 categories. The TWG member stated that the approach builds on concepts familiar to the preparers and is simple. Several TWG member voiced support for the familiarity and simplicity of the approach.
  - A TWG member suggested that the main drawback of the approach would be potential disconnection between data source and quality as supplier-specific data might not be the best quality. The TWG member however highlighted that focus on source allows for value chain engagement and action. Another TWG member agreed that calculation methods don't correspond to accuracy.
  - A TWG member raised a concern that if different tiers would have different names for different categories, that could be confusing. The Secretariat stated that this could be overcome by amending this proposal to have a common tier system for all 15 categories, such as to have 3 tiers for each category: specific, average, spend-based.
  - A TWG member suggested that the proposal is aligned with SBTi requirements, thus minimizing the disconnect between GHG Protocol reporting and target setting.

- Proposal 7: Data quality/pedigree matrix
  - The Secretariat summarized the characteristics that were discussed for proposal 1 and had been noted to be similar for the proposal 7.
  - A TWG member noted that like all proposals, proposal 7 brings about the issue of higher cost to move to higher tiers, and urged finding ways to address this. The Secretariat noted that the strengths of different proposals will be combined in further work on this issue.

- Proposal 8: 2D matrix of data source and calculation method
  - A TWG member summarized the method of the proposed inventory calculation and expressed the opinion that it's challenging to get primary data for emission factors and that companies use a combination of primary and secondary data. The TWG member further highlighted that in this regard, the combined reporting of data sources and calculation methods that the proposal suggests is beneficial for transparency and facilitates easy interpretation.
  - A TWG member expressed the opinion that the proposal is scientifically sound but that ranking uncertainty for each calculation is too complicated when dealing with a large variety of calculations. The Secretariat suggested that the proposal does not specify quantitative or qualitative uncertainty assessment, and that this aspect can be updated to address concerns in future work.

- An interim poll was held to indicate the breakout group's preferences for further development. Proposals 4, 6, and 7 did not receive support. Proposals 1 and 2 were supported by one member each. Proposal 3 was supported by 2 members. Proposal 5 & 6 was supported by 3 members.

Summary of discussion in breakout room B.

- Proposal 1: Quantification, data quality rating and uncertainty
  - A TWG member inquired what direct measurement means specifically, stating that the stoichiometric emission factor methodology might not be reliable. The secretariat clarified that direct measurement in this case refers to direct monitoring through metering and physical sensors, assuming that this does not include spectrophotometers, and agreed that the term direct measurement might need to be specified further
  - A TWG member stated his view that the focus of this discussion is on category 1 of scope 3 (purchased goods and services), as those are the majority of scope 3 emissions. Under this assumption, the TWG member stated that 'measured' almost never surfaces, unless the supplier provides data to the reporting company and specifies that this data was measured, such as at a smokestack, which moves the discussion to proposal 8, which reflects two-dimensionality. The TWG member stated that tiers along 'measured', 'calculated', 'estimated' could be confusing and not very practical for companies, as these distinctions are not applicable to most of scope 3 reporting.

- A TWG member agreed and commented that the approach might be more applicable to scope 1 and scope 2 data.
- The Secretariat followed up on the terminology of primary and secondary emission factors in the ISO system, asking whether the definitions may cause confusion specifically in transfer of the data along the value chain. The TWG member stated that cradle-to-gate emission factors are always a combination of primary and secondary data, but that they are unsure whether the ISO are consistent in their terminology across different standards.
- A TWG member stated that language such as 'good', 'high', 'low', 'reliable' rely on judgement on subjective categories, thus proposals utilizing this language might not fit the previously identified desirable characteristics of a potential solution. A TWG member agreed, stating that a high quality tier should rely on clear definition and cannot be defined as a tier with high quality data. Another TWG member stated that data quality labelling, withregard to the principle of scientific integrity, is challenging, highlighting that currently data is often mislabeled by practitioners.
- A TWG member stated that it is too early to evaluate or vote on the presented proposals because the members do not have full understanding of the proposals at this time. The member suggested holding a plenary and inviting the proposal authors to present their ideas. The TWG member suggested to triage the proposals in order to optimize the process of consideration, and not to considering proposals that did not have enough information. The Secretariat clarified that the session is intended to look at the proposals and invited the authors of the proposals on the call to clarify any necessary details.

- <u>Proposal 2: Primary and secondary data</u>
  - A few TWG members indicated that they did not have enough information about this proposal
  - A TWG member discussed ISO definitions of primary and secondary data (ISO 14040/44 and ISO 14083). The TWG members noted lack of definition of what considered to be primary vs secondary modelled data. A TWG member expressed an opinion that the definitions may indicate source rather than quality of data. Another TWG member provided their interpretation of the ISO definition of primary data, stating that in this definition data measured for a related but different product system still would be classified as primary data. The TWG member indicated their concern about adopting ISO definitions and rationale, as it would not provide any indication of data applicability or quality.
  - The Secretariat posed a question whether a standard can define or approximate data quality through setting boundaries of activity data and emission factors and combinations thereof, instead of definitions of primary and secondary data. E.g. calculation using primary activity data and fuel-specific combustion related emission factors would be assigned to tier 1.
  - A TWG member voiced their concern that a lot of the time in scope 3 reporting all that is available is spend-based data, which in certain cases may be of reasonable quality. E.g. primary data on OPEX spent on certain fuel may give a reasonable assumption regarding the quantity of fuel used. Unclarity of direct measurement with regard to looking at fuel bills was noted. The TWG member expressed concern about setting a bar that no company can meet. Another TWG member agreed, stating that solutions that are too complex and cause confusion among the TWG would be difficult to interpret for preparers as well.
  - A TWG member stated that some proposals are not clear regarding whether their tier definitions refer to the quality/uncertainty of the greenhouse gas emission number or the individual input parameters for its calculation. Discussions on data quality are difficult because most calculations include a combination of data sources. Another TWG member supported the argument, stating the regular use of industry-average emission factors, which may be of sufficient quality.

- <u>Proposal 4: Uncertainty</u>
  - A TWG member inquired if uncertainty assessment in the proposal is regarding input parameters or the resulting inventory datapoints (GHG data), and if the latter – then how the tiers are formed. Another TWG member highlighted that mathematically the total uncertainty includes both the uncertainty of the resulting inventory datapoints and the uncertainty of underlying numbers.

- A TWG member highlighted the importance of feasibility of a potential solution, and challenges that are posed by the proposal for companies in the downstream of the value chain. The member then stated that such companies would likely be able to report primarily on tier 3.

- Proposal 5 and 6: Calculation methods
  - The Secretariat introduced these proposals by stating the similarities between proposals 5 and 6 with proposal 3, regarding the primary consideration of calculation methods as the base for the tiers.
  - A TWG member expressed their support for considering principals that a final proposal should embody, rather than considering each of the detailed proposals. The member clarified that from that perspective, the proposal considering calculation methods rather than data quality per se seems preferable.
  - The Secretariat invited the group to comment on the correlation between calculation methods and data quality.
  - A TWG member stated their concern with this proposal's approach, highlighting that there is a large variation of data quality within a method. Thus, distinctions between the tiers as proxies of accuracy would be nullified. The Secretariat asked what members would think of a simple categorization by calculation method, without ranking or using it as a scale of accuracy. A TWG member replied that this would be doable, but then would not be a data quality indicator, but a calculation method categorization. It would not achieve the objective of identifying data quality.
  - A TWG member noted that the proposal suggests a hierarchy and terminology already familiar to preparers, however that this is a component of a solution but does not provide the whole picture. Calculation method should not be the primary consideration and needs to be complemented by other factors, including considerations of data quality.
  - A TWG member commented that they like supplier-specific terminology in a tiered approach, and that there should be an incentive for companies to move to higher tiers. The member remarked that one of the decision criteria is that data should be actionable for decarbonization, and not just accurate. In this perspective, supplier-specific data allows for value chain engagement and action. The TWG member advocated for strong consideration of both accuracy and actionability of data. Another TWG member stated that supplier-specific indicators are useful, but need to be combined with data quality of this data, and posed a challenge of defining high quality.
  - A TWG member remarked that this discussion is moving into the direction of a multi-dimensional approach, given two main perspectives being put forward. The member questioned the rationale behind and possibility for the group to agree on only one dimension.

- Proposal 7: Data quality (pedigree matrix)
  - A TWG member explained that in this proposal, they tried to create tiers that put information in relation to the intended use. In that perspective, the TWG member suggested scoring not necessarily according to the LCA-like pedigree matrix, but rather according to the intended purpose (e.g. hot spot, external communications, comparative assertions, etc.). The member acknowledged subjectivity of the approach and the burden that would be put on auditors in verifying that claims are appropriate. The member suggested combining the approach with the improvement requirements.
  - A TWG member asked the author if in their proposal they considered differentiation across all dimensions of the pedigree matrix. The author of the proposal confirmed that all dimensions should be considered, providing an example.
  - The author of the proposal suggested that additional dimensions could be integrated into the tiers and highlighted that the dimension included into the current differentiation refers to quality of the data and is familiar to users through example table (Box [7.2]) in the current Scope 3 Standard and LCA methodologies.
  - A TWG member noted the rigid criteria of the data quality considerations in the proposal, and expressed concern regarding subjectivity in judgements, that inherently comes with such assessment.

  - A TWG member raised the opinion that the suggested approach is most applicable to category 1, but not necessarily to other categories, and not scope 1 and 2.

- Proposal 8: 2D matrix of data source and calculation method
  - A TWG member stated their support for the tiers by method approach as it allows for building several dimensions into the tiers (e.g. verification, source, etc.), and thus potentially satisfy multiple north-stars. They acknowledged that this can never be done perfectly unless the system overwhelms companies with a matrix of methods and qualities. The Secretariat asked if it is possible to create a two-dimensional method with calculation method and input data type, or whether more axes are needed. A TWG member replied that the axes need to be considered, but that they do not need to explicitly appear in the revised standard.
  - A TWG member commented that they like the approach of this proposal, and asked the author if in their proposal they considered differentiation only across geographical representativity, or if other dimensions of the pedigree matrix should be also considered.
  - A TWG member voiced their considerations of what should be required vs optional, and which elements reporting companies already have vs what they would need to do. In that perspective, consideration of supplier-specificity currently works as a north star, but level of uncertainty is not considered. This may become a critical consideration from an improvement standpoint. More granularity can be brought into supplier-specificity.

- A TWG member highlighted the objective of developing future-proof tiers, which would mean accommodating emerging technologies currently in development for carbon accounting (e.g. AI and satellite imaging). Another TWG member agreed, adding that the emerging methodologies may not fit the existing categorizations. From that point of view, the TWG member highlighted the benefits of building on the accuracy and precision measure from the start, and thus going to quantitative uncertainty.
- The Secretariat inquired how uncertainty may be reliably considered in AI-based methodologies, and whether AI would offer significantly different methodological solutions for calculations. A TWG member noted two dimensions of AI use for emission factors: automation in search of information, and estimation based on available data, in which case translation of results into conventional statistical measure of uncertainty can be adopted. Another TWG member asked whether the group should consider a requirement for disclosing the use of AI. The Secretariat clarified that this might be implemented.
- A TWG member referred to one of the proposal template criteria, whether the solution promotes decarbonization. The TWG member highlighted the importance of engaging value chain partners for action, and therefore the rationale of supplier-specificity considerations. The member further supported the approach of a rollup along the value chain, to facilitate the ripple effect and all supply chain engagement for target setting and decarbonization on a contractual level.
- A TWG member supported multidimensionality of tiers, and added potential benefits of adding optional dimensions of verification and uncertainty assessment.
- The Secretariat inquired if the group is comfortable with polling on preferred options. Several TWG member spoke out indicating that based on the information and discussion, they would not be ready to choose. No indicative poll was held at the end of the breakout room.

Outcomes (e.g. recommendations, options)

- N/A

6. Presentation of outcomes

- The group reconvened to summarize the discussion. An indicative poll was held to indicate which proposals received the most support vs the most opposition.
- The full group held two indicative polls on which proposal(s) should be the basis for future improvements:

- Based on the discussion, what is your preferred option to become the base of the tier differentiation? Keep in mind, that this is not intended to become the final recommendation, but the base of our future conversation on future configuration.
  - Quantification & data quality rating(measure and very high quality vs other): 2/16 (13%)
  - Data type (primary vs secondary): 1/16 (6%)
  - Data source, calculation method, and verification: 4/16 (25%)
  - Quantitative uncertainty: 1/16 (6%)
  - Calculation method: 4/16 (25%)
  - Data quality (pedigree matrix): 0/16 (0%)
  - 2D matrix of data source and calculation method: 1/16 (6%)
  - Other: 2/16 (13%)
  - Abstain: 1/16 (6%)
- Based on the discussion, which of the options do you oppose the implementation of (even modified)?
  - Quantification & data quality rating (measure and very high quality vs other): 5/16 (31%)
  - Data type (primary vs secondary): 5/16 (31%)
  - Data source, calculation method, and verification: 1/16 (6%)
  - Quantitative uncertainty: 8/16 (50%)
  - Calculation method: 5/16 (31%)
  - Data quality (pedigree matrix): 4/16 (25%)
  - 2D matrix of data source and calculation method: 4/16 (25%)
  - Abstain: 3/16 (19%)

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- N/A

7. Next steps

- The Secretariat presented the next steps (see slide 20) and clarified that the time of the next meeting presented on the slide for CET, CHN, and AET zones is incorrect, and will be corrected.

Summary of discussion

- N/A

Outcomes (e.g. recommendations, options)

- The Secretariat to correct the time of the next meeting.

Summary of written submissions received prior to meeting

No submissions received