

Summary of Notes from TWG discussions

GHG Protocol *Scope 2 Accounting Guidance*

December 17, 18 and 19 2012

Objectives of the call

- Test the scope 3 allocation framing and definition of electricity as a product
- Ensure there is a common understanding of the *Corporate Standard* definitions of GHG emissions reduction
- Offer an explanation of how and why additionality and eligibility criteria can apply
- Discuss Proposal document

Referenced materials

- Summary of July TWG discussions
- Issue Clarification
- Proposal No.2

I. Feedback on scope 3 production boundary framing

*The premise is that for accounting purposes, electricity **may be** a product that can be "differentiated" within a grid system on the basis of contractual relationships. Is the logic presented in the documents sound? Does the presence of contractual instruments alone justify the use of a contractual allocation procedure?*

Feedback:

- ✓ **Overall, the scope 3 framing is clarifying**
 - It is useful to think about electricity as a product. It makes discussions easier and facilitates the application of other areas of guidance, such as sector methodology or product category rules, to this topic. (Rasmus Priess, THEMA1)
 - By focusing on defining electricity as a product, the exercise is distinguished from consequential, "offset," accounting. The documents that were presented identify the ultimate need to reduce system emissions with credibility but emphasize attributional framing (Michael Gillenwater, GHG Management Institute)
- ✓ **Essential to define the product and production boundary**
 - These first questions about whether or not we have a differentiated product are a prerequisite to the conversation about method and criteria (Michael Gillenwater, GHG Management Institute)
- ✓ **Strong precedent for treating electricity as a differentiated product**
 - Information tracking for utility compliance via certificates and contracts in the US (Alex Pennock, Green-e)
 - Other products do not generate all of the same questions, because you can physically track the products and their processes. With electricity there is an important distinction between physical production processes and their flow and information flow. Information flow depends on the reliability and traceability of the system (Pedro Faria, CDP)
- ✓ **Should evaluate the broader basis for contractual relationships**

- This model assumes that any contractual instrument can serve as the basis for consumer claims. But how does that consumer-generator relationship compare with the government’s relationship to that generator? In other words, is it fair to allocate a generation factor to consumers, whilst ignoring a larger causal relationship of a public subsidy that brought that generation facility online? (Nick Blyth, IEMA)
- ✓ **Is the presence of spinning reserves a real concern, or an open-ended question?**
 - The text notes that contractual claims can obscure the fact that fossil-based power is often used as a “backup” for intermittent renewables, and renewable purchasers do not have to claim these emissions (Andrea Smith, CDP)
- ✓ **Should identify analogies for similar products to clarify the application**
 - Should compare this with other commodities— such as distributed food networks, gas, or anything that becomes indistinguishable and then must be allocated (Nick Blyth, IEMA)
 - Should create consistency between how we treat distributed district heat and how we treat electricity (Caspar Noach, EcoFys)
 - Parallels with contract shuffling, load-based cap and trade schemes and similar risks about contract shuffling. What sorts of constraints or guidance exist for allocation? (Michael Gillenwater, GHG Management Institute)
- ✓ **Use of method should be defined by end-user purchasing options**
 - The method should not be limited by location, as individual choices are not locational. Purchasing entities should have to report based on the choice they’ve made or not made
 - Reporting entities with similar purchasing *options* should be required to use the same scope 2 methods
 - Applicable geographic boundaries should be consistently set based on regulatory frameworks. For instance, a country should be a reasonable boundary for geographic grid systems
 - There are always special cases (large industrial consumers), and physical delivery depends on other variables (Todd Jones, Green-e)

II. Feedback on operational elements implied by a “differentiated product” allocation approach

The allocation criteria and examples from the [Scope 3 Standard](#) should be a basis for determining where and how this allocation can be operationalized for accounting purposes. Which apply, and what is the degree of GHG Protocol stringency?

- ✓ **Sensitivity analysis**
 - Goodcompany conducted a sensitivity analysis for scope 2 emission factors in the Pacific NW and found an enormous gap in the carbon intensity of utility factors vs. eGRID. Corporate and government clients served by public power could reflect a hydro mix based on the municipal utility’s preferential access to hydro system—but this does not change the nature of the grid. Results of a sensitivity analysis are confusing to stakeholders: what are people supposed to say about this? How are they supposed to feel? (Josh Skov, Goodcompany)
- ✓ **TWG should assess existing system best practices**
 - Has there been explicit discussion of The Climate Registry’s Electric Power Sector Protocol’s methodology for power providers to calculate the emissions of their portfolio? (Josh Skov, Goodcompany)

- The state of Massachusetts will calculate an adjusted factor that removes the renewable energy contracts that entities report to it – is this a widespread practice across other states? (Geri Kantor, Harvard Sustainability)
- Need to make it possible for utility emission factors to be consistent from area to area, as we currently have varying levels of information availability and reliability (Melanie Dickersbach, Exelon)
- Adjusted factors are critical for customers, retailers, and larger policy applications (Tim Kelly, Conservation Council of South Australia)
- ✓ **Lack of consistent, reliable, and available utility emission factors renders the contractual method ineffective**
 - It is hard to envision these adjustments being made widely available. At this point in time we are glad that eGRID factors are published with 2-3 years delayed (Eric Christensen, WSP Group)
 - For companies buying from a number of utilities across the country, where utility figures fluctuate year to year based on shifts in owned assets vs. purchasing, using utility figures is a nightmare scenario! Have to have strong and consistent reporting from the utility that can disclose specific instruments. At minimum, companies should use eGRID as a starting point so that everyone can go to the same place for the same level of reporting (Brian Kozlowski, NewPage)
- ✓ **Should recognize that some mature systems are already in place**
 - The presence of reliable utility disclosure and emissions adjustments is not as hopeless or distant as some may think. The language used here is about grid operators taking leadership in making information available, and in the US we do have tracking systems for these instruments though they are not all the same. Some tracking systems are better for our purposes than others—i.e., all-generation tracking systems better facilitate adjusted figures. This foundation is good to build on, as are similar supplier disclosure requirements in the EU (Ed Holt, contractor to EPA)
 - In mature grid systems such as Sweden, all customers have the opportunity to buy low-carbon electricity at a premium (green), or brown power that constitutes the residual mix. These choices are clearly distinguished on the utility bill, along with the overall national emission factor (Richard Sturman, AstraZeneca)
 - The European fuel disclosure mix is designed for customers to be able to distinguish what they receive. BT's supplier, *npower*, recently issued its first electricity carbon label . BT supports an "A to G" electricity label for consumers that specifies the emissions-intensity of the purchased power, along with other attributes (Jennifer Dove, BT)
- ✓ **Using "should" language for these criteria would clarify what we aspire for and help motivate us to get there**
 - It should be clear what we aspire to for electricity purchasing and claims, and design an accounting framework that can be applied to the different stages of development a given market might be at (Matt Clouse, EPA)
 - Green power providers are doing as much as they can, but jurisdictions and policy makers may not be implementing these systemic solutions because they fail to see why it is necessary. We have an opportunity to build consumer-led support here! In Australia,

Green power support is currently falling because the accounting system does not allow purchasers to receive the benefit(s) of zero-carbon energy (i.e., they still have to pay the carbon tax levied on all electricity consumers). We still have an opportunity to change a system (Tim Kelly, Conservation Council of South Australia)

- "Should" terminology is the best place to start, as opposed to "shall," which would prevent companies from reporting the emission rate associated with their purchased product. "Should" is more practical and appropriate and will allow flexibility, which is necessary given the current realities of how to report this (Peggy Foran, The Climate Registry & Celine Ruben-Salama, American Express)

✓ **Identify a transitional reporting system**

- While we are striving to prevent over/under counting in scope 2, what is a practical approach for reporting in the meantime? How much can we make this a disclosure issue before it assumes too much knowledge on the part of companies and stakeholders reading inventory reports? (Tom Stoddard, Native Energy)
- A "screening approach" as part of a hierarchy could help identify the different grid criteria scenarios. Should start from the assumption of conservative disclosure (Nick, IEMA)
- If methods are not currently possible for a user to employ with confidence, then it is confusing rather than motivational. GHG Protocol should take a more directed approach with grid system operators in setting up necessary systems. This entails doing outreach quietly offline, and once a system is really in place put out guidance that explains the methodology (Eric Christensen, WSP Group)
- Should use eGRID as starting point but consider dual reporting as with Option 3 stated in previous drafts (Brian Kozlowski, NewPage)

III. Feedback on means to ensure recognition for activities that, in aggregate, change global GHG emissions

These Guidelines can support recognition for activities that, in aggregate, change global GHG emissions through several means. Which of these recommendations apply?

✓ **In an attributional framework, these criteria are not applicable**

- Should be very careful not to slip into a consequential accounting framework, must make diligent effort to maintain that distinction
- Correctly stated in draft that the focus should be change in *aggregate*, rather than emission reduction at the individual level as with project-based accounting (Michael Gillenwater, GHG Management Institute)

✓ **Inconsistent requirement, since we do not demand this demonstration for other products**

- Should we be concerned about whether purchases in aggregate change emissions?
- There is no reason to suggest current supply/demand dynamics necessitate recommendations or requirements about product qualities in order for those products and the accounting method to be relevant

- ✓ TODD - acknowledge that impact of voluntary markets is subject to supply/demand, but also true of efficiency and any other purchase decision. No reason that contractual can change this any LESS than any consumer activities. Ample evidence that US market has resulted in new generation

✓ **Defining policy neutrality**

- This guidance will inherently *be policy-sensitive*, but it should maintain neutrality
- Guidance should be policy neutral, but an internationally applicable eligibility threshold can plausibly be established based on the consensus in this group (Matt Clouse, EPA)
- Policy neutrality can still mean identifying the role that each actor in the electricity supply chain plays: i.e., a role for government, retailers, grid operators and customers (Tim Kelly, Conservation Council of South Australia)
- Disclosure on specific eligibility attributes can be useful—some of those are operational quality criteria mentioned in the previous section, including exclusive ownership and vintage (i.e., banking is not allowed)