

GHG Protocol – Eurogas key statements

May 2023

1. Context of the GHGP framework revision

The GHG Protocol (GHGP) is an internationally recognized framework defining corporate GHG accounting and reporting standards. It has traditionally served as the **reference point for the voluntary decarbonization framework**, but it is also **increasingly being referred to in financial disclosure regulations** notably in Europe¹.

In December 2022, GHGP governing bodies have launched a full revision process of their framework (**~2 years process expected**) with a first step being a **consultation survey** (due March 14th). One of the most critical issues is the **accounting of market-based instruments, or Energy Attribute Certificates (EAC)**, among them guarantees of origin (GO), renewable energy certificates (REC) and PPAs. In 2022, GO market accounted for € 2.5 Bn. The private investment in CPPAs is up to € 100 Bn worldwide. Today they are explicitly allowed in Scope 2 reporting² (purchase of energy) and are the main tool for Corporate decarbonization strategies. Still, there are many criticisms around their effective impact on GHG reduction in the atmosphere, mainly related to their lack of additionality, as for instance ~50%³ of GO in Europe come from large hydropower generators which assets have been commissioned decades ago. This **unfavorable context** for market-based instruments has been reflected in the LSRG draft Guidance (Land Sector and Removals addressing biogenic carbon accounting) issued in September 2022 which explicitly **excludes the possibility to use market-based accounting tools for grid-injected biomethane**. The final GHGP decision related to biomethane – expected in Q3 2023 - will be a key parameter, notably given the massive reaction of worldwide biomethane industry during the recent specific public consultation.

For the time being the GHGP seeks to collect the maximum of stakeholder feedback to inform their work going forward, notably on what should be **their role** (neutral framework or decarbonization instrument), **how efficient the market-based accounting method is** for GHG emission reduction in the atmosphere (given that additionality is not a criterion today) and what could be the more fundamental **possible methodology evolution**. Possible directions are as follows:

- Prohibit market-based accounting (allowing thus only the local grid intensity approach) and potentially develop another scheme to account for corporate initiatives (e.g. around avoided emissions with offset credits),
- Maintain market-based accounting and adapt it with:
 - o Additional disclosures or additional quality criteria (such as additionality)
 - o Promote a new methodology e.g. 24/7 (hourly matching), CO₂ counting (rather than MW counting)

2. Key messages

- **The role of the GHG Protocol**

The GHG Protocol should be to provide accurate accounting standards to report GHG emissions

The GHG Protocol shall remain a **neutral international accounting framework** for authorities and private stakeholders to make their choices, agnostic of political objectives. It shall focus primarily **on inventory accounting**, and not intervene in target setting framework or project-based accounting. For target setting, market players should be able to choose their reduction target setting framework (SBTi for instance). For project-based accounting, considering the very different approach (i.e. avoided emissions resulting from projects or interventions relative to a baseline scenarios) these should be managed by other frameworks, based on WBSCD guidance for instance.

¹ In EFRAG and ISSB, the reference to GHGP standards is clearly stated

² Scope 2 accounting frameworks enables today 2 methodologies for GHG accounting: location based (grid intensity) and market based (commercial instrument + residual mix accounting); for Scope 1 and 3 it is not clearly authorized nor excluded

³ 2020 figure

It is also imperative that **regulatory bodies (European and US for instance) be associated or at least consulted** in the revision process and in the governance of the Standard update in the longer term, to find alignment as inconsistency or misalignment between the prevailing regulatory frameworks and the GHGP standard would be very difficult to manage for Corporates and inefficient for decarbonization targets.

▪ **Five “no regret” recommendations to pave the way for any future major framework evolution**

1. **Maintain the key role of the private sector in decarbonization through market-based approach:** The decarbonization of the private sector requires the conjunction of public support and private initiatives and market-based accounting has an essential role to play, as it enables companies and individuals to concretize their pledge for the energy transition and values their voluntary action towards their own stakeholders. Market-based accounting should continue to be applicable to Scope 2 (on the power consumer side), as well as be explicitly extended to Scopes 1 and 3 (to address gas, power producer and supplier sides). Market-based instruments for biomethane have been accepted so far, based on common practices. The GHGP framework revision should allow for mirroring and consistency of emissions accounting (and their reductions) across the value chain (i.e. between energy producers, suppliers and consumers), in order to ensure coherence and align the objectives of these different actors, for the overall benefit of the decarbonization of the whole system.
2. **Elect market-based accounting whenever materially relevant to avoid the double counting inherent to dual reporting:** Given that dual reporting leads to some double counting⁴ and makes comparison difficult, a single method should be used, i.e., market-based approach where it is possible (statistics available). This would not only address the double counting issue but would also maintain the momentum of decarbonization by the private sector. On the opposite, restraining accounting methodologies to location-based method only would discourage players from undertaking decarbonization actions, becoming dependent on other actors, most likely governments, to reduce the carbon intensity of the grid. For energy (as part of sectoral guidance), as long as market instruments such as EACs are used, the supplier mix approach should be discarded. This is to ensure the integrity (data access, traceability and avoidance of double counting) of the market-based methodology.
3. **Develop and improve statistics via better data granularity and residual mix robustness:** Having said the above it should be noted that there is need to improve accuracy of the available data on market-based tools. Hourly data for power and daily for gas (both for grid average and for residual mix) should be made available to all market participants under the control of public authorities, to increase transparency and trust of all stakeholders.
4. **GHG protocol should not differentiate between EACs:** the GHG Protocol should base accounting on methodologies and instruments that are agnostic of additionality, financing considerations (subsidies), or variances in geographical implementation. As long as validly issued and cancelled, EACs should be treated equally in GHG accounting. In addition, the ability to trade separately the EAC and the commodity is critical for the market and can validly support decarbonization. This possibility is crucial given the different nature of consumers, their consumption level and financial capacities.
5. **Increased and improved disclosures on scope 2 calculation:** scope 2 guidance already provides an extensive list of quality criteria for contractual instrument with the underlying objective to ensure spatial and temporal convergence between the energy produced and consumed and to avoid double counting of the same unit of energy. Additional disclosures on the Scope 2 calculation should be required together with metrics on the type of EACs used, and their intrinsic quality (temporality or geographical matching for instance).

These five “no regret” recommendations are compatible with any longer-term and more structural evolutions of the reporting framework, be it those based on the 24/7 matching logic (which seems relatively difficult to implement but has the advantage of being close to physical reality and promoting flexibility instruments) or those based on CO₂ as a reference metric for emissions netting (which presents the benefit of evidencing the effective emissions impact on the atmosphere but limits the incentive to develop renewable capacities in already decarbonized countries).

⁴ Dual reporting may lead companies, who are arbitrating differently in their choice of method, to both end up recognizing the environmental benefit of the same assets, one through the grid intensity, the other through the EAC or PPA.