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<td>Power Source Disclosure - AB 1110 Implementation Rulemaking</td>
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<td>Open Letter Rejecting the Use of Contractual Emission Factors in Reporting GHG Protocol Scope 2 Emissions</td>
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<td><strong>Filer</strong></td>
<td>Gregory Chin</td>
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Open Letter on Scope 2 GHG Reporting
For a "True and Fair" Representation of Corporate Actions and Emissions

Open Letter Rejecting the Use of Contractual Emission Factors in Reporting GHG Protocol Scope 2 Emissions

Posted on February 12, 2015

Summary: This letter is authored by GHG accounting practitioners and academics concerned that the GHG Protocol’s Scope 2 Guidance allows reporting entities to use contractual/REC-based emission factors in reporting Scope 2 emissions. Contractual emission factors misrepresent reporting entities’ emissions. We strongly recommend that Scope 2 emissions be reported based on the other method provided in the Guidance, locational grid average emissions factors. This preserves the integrity of the reports, and reduces risk for reporting entities. It is also fully consistent with the GHG Protocol Corporate Standard and the spirit of the Scope 2 Guidance.

To: Decision Makers Involved in Corporate Sustainability Strategies, Purchasing RECs, and GHG Reporting, and Reporting Practitioners

WRI’s GHG Protocol Scope 2 Guidance ("Guidance") allows companies that purchase Renewable Energy Certificates (RECs), or enter into other "green power" contracts, to report their GHG emissions from electricity consumption as zero.¹ This implies that by paying an extra fee to make a claim on renewable power, a company can report having a GHG “footprint” of zero, equivalent to not having consumed any electricity.

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emissions. Yet this is precisely what can happen under the Guidance given the contractual/REC-based reporting method. This method:

1) Encourages companies to make emission reduction claims and set targets based on green power purchasing claims. Voluntary RECs, however, have been empirically shown to have no detectible influence on grid emissions,\(^2\) meaning that emission reductions claims are baseless.

2) Encourages companies to believe and communicate to their stakeholders that they are purchasing electricity from renewable generation, when in fact they are only purchasing a claim to a "renewable attribute." The physical electricity they consume remains unchanged, as do the emissions associated with it. Therefore, claims of emissions avoided are also baseless.

Advocates for the contractual/REC-based approach for Scope 2 reporting argue that future growth in the demand for RECs could lead to greater voluntary investment in renewables. Empirical evidence shows this outcome to be economically unachievable, and even if it were not the contractual approach to Scope 2 accounting would still be wrong. Only a very small fraction of the RECs claimed by companies in this “hope-based” future would have resulted from increased investment due to the voluntary green power market, but all RECs in the market would each be claiming a full megawatt-hour worth of Scope 2 reductions.

It is because of these problems that we are calling on reporting entities and GHG accounting practitioners to not utilize the contractual/REC-based reporting method in the Guidance. We understand the difficulties in reconciling disparate stakeholder interests in producing GHG reporting guidance. Our normal inclination would be to defer to the process. Unfortunately, the contractual approach to Scope 2 accounting is so great an anomaly when viewed against the high standards maintained by WRI over many years of GHG Protocol development that we have to object.

The contractual Scope 2 reporting method establishes a threatening precedent for environmental accounting by endorsing approaches that lack environmental integrity, and thereby puts reporting entities at reputational risk for misleading their stakeholders. Most seriously in light of the goals of the GHG Protocol itself, the contractual reporting approach may steer reporting entities away from actions that actually reduce electricity emissions (e.g., improved energy efficiency and onsite renewables generation).

The concerns we summarize here were raised many times by multiple parties during the development of the Scope 2 Guidance. Examples include (but are not limited to):
If companies wish to account for GHG emissions reductions achieved by green power projects, they should use alternative accounting frameworks — such as those provided in the GHG Protocol’s “Guidelines for Quantifying GHG Reductions from Grid-Connected Electricity Projects” — that quantify actual outcomes rather than mere contractual arrangements.

To be clear, the signatories to this letter are strong supporters of both voluntary initiatives and policies that accelerate growth in renewable energy. However, it is critical to the legitimacy of corporate GHG reporting that Scope 2 emissions be calculated and reported on the basis of credible assumptions and methods that reflect actual environmental performance.

1. The Guidance requires companies to also calculate a locational grid average-based Scope 2 emission estimate, but it treats both calculation methods as equally valid in reporting and communicating final Scope 2 emissions.

2. A considerable body of research literature and analysis on RECs and Scope 2 GHG accounting support the conclusions presented in this letter. Much of it is available through the Open Letter on Scope 2 GHG Reporting and Response to Greenhouse Gas Protocol’s Consultation, and through technical discussions such as the GHG Management Institute’s Is your “green power” really just “green washing?” debate.

Sincerely,

Matthew Brander, Senior Research Fellow, University of Edinburgh Business School
Derik Broekhoff, Vice President, Climate Action Reserve (and former GHG Protocol team member)
Dr. Michael Gillenwater, Executive Director and Dean, GHG Management Institute (and core advisor to the revised edition of the GHG Protocol corporate standard)
Dr. Mark C. Trexler, Director, The Climatographers (and former President of Trexler Climate + Energy Services, which authored many early corporate GHG inventories)

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Ali Rivers, Technical Lead – Climate Change, ecometrica

We welcome serious discussion of this issue. To participate and share your insights, please leave your comments as a “reply” to this letter below.

If you would like to add your name, and thereby endorse, this letter, please email your full name, title, affiliation, and email address to Scope2openletter@gmail.com.