



Greenhouse Gas Protocol: *Survey on Need and Scope for Updates or Additional Guidance*

RECS' answers to key questions in the market-based accounting approaches survey

About RECS energy certificate association

For over 20 years RECS has been committed fighting climate change and accelerating the energy transition by supporting the purchase of renewable energy through robust, reliable, transparent markets. Energy Attribute Certificates (EACs) are the tools we use to unlock this vision. At RECS we support the development of both existing and new EAC markets around the world. We engage with a wide range of stakeholders, including governments, market participants and consumers, and provide the knowledge and information they need to boost consumer demand for renewable energy. RECS works to provide the knowledge, motivation, and confidence needed to buy 100% renewable energy. More information can be found at www.recs.org.

About the Greenhouse Gas Protocol Surveys

The GHG Protocol Corporate Accounting and Reporting Standard sets out how companies and other organizations should measure and report on their greenhouse gas (GHG) emissions. The Greenhouse Gas Protocol is a crucial tool for corporates working to cut their emissions and for assessing the impact of their actions. In launching a series of surveys on the need and scope for updates or additional guidance, the GHG Protocol team states that it is seeking to ensure that guidance remains relevant.

Developed in collaboration with RECS members from all major EAC markets (GOs, North American RECS, and IRECs) *this paper provides RECS' answers to key questions in the survey on market-based accounting approaches. These answers are transposed from RECS' general position on the GHGP review, as well as RECS' response to criticism of the market-based method¹.*

1 <https://recs.org/news/recs-position-on-the-greenhouse-gas-protocol-review/>

Key questions and RECS' answers

RECS has identified key questions in the GHGP survey on the need and scope for updates or additional guidance on the market-based accounting approach – set out below with RECS' answers. RECS invites stakeholders to draw on these answers when submitting their own responses to the survey.

Question 19:

Do you think that market-based accounting approaches ensure that emission reductions reported in a company's GHG inventory correspond to a reduction in emissions to the atmosphere?

- Yes
- No
- Not sure

Question 20: (4,000 characters allowed)

Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.

The market-based accounting approach does ensure that emissions reductions reported in a company's GHG inventory correspond to a reduction in emissions to the atmosphere. This is because the market-based approach, based on the issuance, trading and cancellation of energy attribute certificates (EACs), provides a reliable mechanism through which consumers can identify and choose the energy (power, gases, etc.) they want to pay for and to make verifiable claims about the attributes of that energy (such as when, where and with what technology it was produced). This in turn means that EACs can act as a market signal and provide private financial support that encourages additional renewable energy development that ultimately cuts overall emissions. The reduction of individual emissions by using EACs is key to incentivise the consumer to pay an additional amount of money to finance renewable energies.

In more detail, there can be differences in the role of EACs depending on the market they are used in. For example, in immature markets, EACs often provide critical (sometimes the only) revenue surety to developers/asset owners. In emerging markets, where renewable energy infrastructure may not be a business-as-usual option, EACs are a means to generate additional income that can ultimately lead to new asset capacity and generation, which otherwise would not have been viable. In a mature market, given RE generators' high capital costs, EACs (both voluntary and compliance) can provide important additional income, critical to de-risking an energy project. For instance, the EPA suggests that unbundled RECs allow for greater revenue generation which ultimately makes renewable energy development a more attractive investment opportunity. In France, the state received €126M in 2022 from GO auctions.

The value of an EAC is almost pure profit to producers as they cost little or nothing to obtain. This profit can, and in RECS' view should (given the strong market signal from consumers), be invested into more renewable energy generation. Such investment in new

renewables accelerates the energy transition and displaces fossil fuel power generation – cutting overall GHG emissions. With developers increasingly able to self-fund new renewables thanks to EAC values, governments can focus their support for renewables on newer technologies and/or on generation in more challenging locations. A recent report for the Dutch government makes this clear, stating that the value of guarantees of origin is an important factor in determining whether positive investment decisions can be made for offshore wind projects since the Dutch government no longer provides financial support for such projects. New biomethane plants are also being developed in Europe without subsidies, thanks to the value of EACs. Furthermore, the market-based approach has enabled the development of a comprehensive legislative and regulatory framework in Europe that incentivises companies to contribute to the energy transition through their consumer choices.

Therefore, in RECS' view, Renewable energy markets based on EACs clearly support additionality, help to accelerate the energy transition, and cut emissions by displacing fossil fuels. Every purchase of renewable energy attributes provides additionality. As such, consumers making the additional effort of buying renewable energy should benefit by being able to reduce their scope 2 emissions, since their purchases do have an impact on total global emissions. By contrast, the scope 2 guidance should also recognise that there are a several important drawbacks to the location-based method for calculating and reporting scope 2 emissions. First, it is inherently imprecise. Second, it allows companies to make emissions reductions claims that they did little or nothing to support. Third, it provides no individual incentive to act. Forth, it allows for double counting of the renewable attributes of a given unit of energy.

Question 21: (4,000 characters allowed)

If yes, how do they ensure consistency between company and global emission reductions? You may enter brief comments here or submit a more detailed proposal using the proposal template.

Consistency between company and global emission reductions can and should be achieved with impactful renewable energy (power, green gases, etc.) purchasing through robust EAC schemes. RECS is pleased to see what seems to be a desire to encourage companies to make the most impactful purchase of renewable energy that they can, and in doing so helping to accelerate the energy transition and cut emissions. In particular, the current guidance's Chapter 11, titled "How Companies Can Drive Electricity Supply Changes with the Market-Based Method", should be updated. RECS supports updating the contents of Chapter 11 and giving it more weight and visibility in the updated version of the Scope 2 Guidance. This chapter mentions only the market-based approach because it is generally accepted that individual stakeholders cannot drive the energy transition through the location-based method.

Indeed, there are a several important drawbacks to the location-based method for calculating and reporting scope 2 emissions. First, it is inherently imprecise. Second, it

allows companies to make emissions reductions claims that they did little or nothing to support. Third, it provides no individual incentive to act. Forth, it allows for double counting of the renewable attributes of a given unit of energy. Any use of the location-based method should take these limitations into account, and stakeholders should work to address them as far as is possible.

Because location-based reporting reflects the average emissions intensity of the local grids on which energy consumption occurs, it is inherently imprecise. For example, if a consumer uses electricity at night or when there is no wind they can still claim the average emissions factor for the total grid mix regardless of what technologies were producing power at the time they were consuming it. Furthermore, there can be many interpretations of what the grid mix is because the Scope 2 Guidance does not give clear boundaries of the territorial unit to consider when using the location-based method. There is a clear incentive for corporates to use the most favourable grid mix available to them regardless of how accurately it reflects their consumption. Due to this imprecise use of grid mix emissions factors, location-based accounting also has the drawback that corporates can account for emissions reductions at the grid level that are unrelated to their own procurement practices and investments. In addition, the location-based method reduces the incentive of organisations to act individually to support renewables through its procurement policies. Under this method a corporate might be making the most impactful purchases of renewable energy possible, but they would only benefit in the same way as all other electricity consumers on the same grid.

Finally, allowing the use of the location-based method at the same time as the market-based method can quickly lead to institutionalised double counting. Under the dual-reporting regime, all companies should be reporting their scope 2 emissions calculated using both the location-based and the market-based accounting methods. This means that the same attributes are being counted in two different ways and are thereby being counted twice. For example, if 'Company A' is reporting zero scope 2 emissions because it covered all of its power consumption using French GOs, while 'Company B' is reporting very low scope two emissions because it consumed power in France, which is almost 100% renewable (hydro), without buying the related GOs, then double counting of some or all of those attributes has occurred.

RECS understands from its members that this double-counting is made worse by corporates often choosing whether to calculate their scope 2 emissions using either the market-based or location-based method, rather than using both. This makes the double counting more difficult to detect because any comparison of the two accounting methods becomes impossible.

Question 22:

Could current or new market-based approaches be designed to ensure that emission reductions reported in a company's GHG inventory correspond to a reduction in emissions to the atmosphere?

- Yes
- No
- Not sure

Question 23: (4,000 characters allowed)

Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.

In order to further strengthen renewable energy markets and scope 2 emissions reporting using the market-based method, RECS does support the ongoing development of EAC schemes to make them as efficient and impactful as possible. In RECS' view, the next step for advanced EAC schemes like the European guarantee of origin system is total market transparency through full disclosure and GHG values on EACs.

EACs are not inherently limited to renewables and can document the attributes of any type of energy. Where this is done, it is called 'full disclosure' and can bring total transparency to energy markets. RECS strongly supports the use of full disclosure because it requires all power consumers to prove the origin of all the power they consume – ensuring a level playing field between renewable and non-renewable electricity sources. RECS also asserts that if all end-users have to actively purchase energy attributes and prove the origin of their energy consumption, end-users will be more aware of where their energy comes from – encouraging them to buy renewables.

Legislators and regulators should see clear benefits in full disclosure schemes. They provide total transparency of the energy being produced and consumed, MWh by MWh. This clarity can enhance the implementation of energy policies and the tracking of targets. As stated above, full disclosure should also facilitate more conscientious energy buying, and provide more motivation to buy renewable energy over fossil fuels. This should add to the income for renewable energy producers allowing public authorities to redirect (not reduce) their renewable energy support budgets to emerging technologies and/or current technologies in areas where their development is more economically or practically challenging.

Importantly, as regards scope 2 emissions reporting, if every unit of energy consumed has to be certified, then every consumer knows from where the power they have paid for comes. If every EAC also carried a GHG value stating the grams of emissions for the MWh of energy, then all consumers would know the emissions value of the energy they have bought. This would remove any lack of clarity over the ownership of every unit of energy, or the responsibility for the emissions that are attributed to that energy.

EAC markets are the only way for energy users to purchase a specific energy product and to make claims based on what they have bought. As such, they must be recognised and respected as the cornerstone of corporate scope 2 reporting. This reporting allows

stakeholders to scrutinise corporate energy procurement practices, and, if needed, to call on those corporates to make more impactful purchases. The more global EAC schemes are standardised and harmonised, the more efficient and effective they can become at supporting the energy transition and the easier they will be for all stakeholders to use and understand.

Question 24: (4,000 characters allowed)

If so, how? For which types of market instruments and approaches? You may enter brief comments here or submit a more detailed proposal using the proposal template.

Full disclosure regulations can further develop advanced EAC schemes because they require all power consumers to prove the origin of all of the power they consume. If all end-users have to actively purchase energy attributes and prove the origin of their electricity consumption, they will be more aware of where their electricity comes from - encouraging them to buy renewables. RECS International advocates for the use of full consumption disclosure systems.

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In short, EACs are the only way for energy users to purchase a specific energy product and to make claims based on what they have bought. As such, they must be recognised and respected as the cornerstone of corporate scope 2 reporting. This reporting allows stakeholders to scrutinise corporate energy procurement practices, and, if needed, to call on those corporates to make more impactful purchases. The more global EAC schemes are standardised and harmonised, the more efficient and effective they can become at supporting the energy transition and the easier they will be for all stakeholders to use and understand.

RECS respects the desire of the GHG Protocol Corporate Accounting and Reporting Standards authors, the WRI and WBCSD, to review the standard and its guidance on scope 2 emissions. However, RECS also encourages these organisations to do more to actively encourage the understanding and appreciation of these important texts. For example, for several years, it was up to market players, including RECS and many of our members to highlight and communicate the protocol and its guidance to energy consumers. In particular, the WRI and WBCSB should provide guidance on how to use the location-based method. For example, it would save many users a lot of time and frustration if WRI published lists of location-based numbers or provided a clear explanation on how to use this method in practice. The authors could, and should, also encourage corporates to make much greater use of Chapter 11 on additional impact and to share their own experiences, from which others could learn and benefit.



Finally, if any changes are made to the GHG Protocol Corporate Accounting and Reporting Standards and related scope 2 guidance, their publication should be handled with great care. In the aftermath of the original publication of the GHG Protocol Scope 2 Guidance in 2015 it was largely up to the users of the standard to explain and defend the choices made in its development. Therefore, this was done in an uncoordinated way, without the involvement of WRI or WBCSD due to the lack of dedicated contact people in these organisations. Many of the criticisms of the standard and guidance which are still being raised today date back to this period. The same mistake should not be repeated following this review and subsequent publication of any revisions.