

GHG Protocol Scope 2 Consultation Draft PwC's Comments & Doug's Observations

Douglas Hileman, FSA, CRMA, CPEA, P.E.

GHG Protocol¹ is the acknowledged global standard for measuring greenhouse gas (GHG) emissions. The Corporate Standard (last revised in 2004) and Scope 2 Guidance (last revised 2015) and Scope 3 standards (2011) are foundational for all entities that prepare and/ or use GHG emissions inventories to help inform decisions. Plenty has changed in 20 years, including laws and regulations, investor demands, and the growth of B2B requirements. GHG Protocol released a Scope 2 Consultation



draft for public comments.

PricewaterhouseCoopers LLC (PwC) submitted comments. It's worth reading² for preparers and users of GHG emissions inventories. PwC's comments highlight many challenges I have noted, and provide useful suggestions. With baseball season now underway, I offer three themes as "home runs" and three more where runners are still on base.

SCOPE 2 COMMENTS: PWC HOME RUNS

Home Run #1: Feasibility & Practicality

Avoid too much complexity. PwC repeatedly notes the burden imposed by undue complexity, stating "the proposed changes are unduly complex and would create an unnecessary data management burden, do not reflect current market reality, and would not result in a commensurate improvement in data quality." I couldn't agree more. Several aspects are impractical (if not infeasible), especially for smaller



enterprises, and companies just beginning their GHG emissions inventory journey. PwC encouraged GHG Protocol to simplify its approach "to ensure that its standards are both practical and operable in

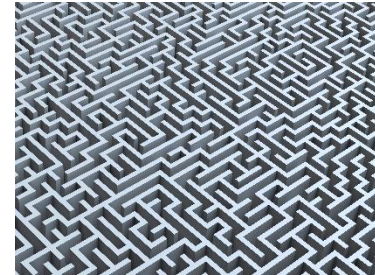
¹ See www.ghgprotocol.org

² Found at

[https://viewpoint.pwc.com/dt/us/en/pwc/response_letters/response_letters/pwcresponseletters/pwcresltrgreen_gascope2.html#:~:text=Favorite%20Content-,PwC%20shares%20feedback%20on%20GHG%20Protocol%20Scope%202%20Guidance%20amendments,2%20Guidance%20amendments%20\(PDF%20383kb\)](https://viewpoint.pwc.com/dt/us/en/pwc/response_letters/response_letters/pwcresponseletters/pwcresltrgreen_gascope2.html#:~:text=Favorite%20Content-,PwC%20shares%20feedback%20on%20GHG%20Protocol%20Scope%202%20Guidance%20amendments,2%20Guidance%20amendments%20(PDF%20383kb)). Don't let the number of pages intimidate you. The questionnaire includes many multiple choice options; read the text for the key insights.



the current sustainability reporting environment.” Also “to provide sufficient flexibility such that standards would be accessible by entities of all size and experience with sustainability reporting.” [Q157³]



Market-based reporting and hourly emissions factors. The Consultation continues the current requirement for dual reporting, disclosing emissions calculated using location-based and market-based emissions factors. The approach for calculating market-based emissions factors calls for hourly matching of emissions factors from the electricity provider. This is remarkably ambitious. It is also fantastically impractical, and will not be feasible for the majority of reporting entities any time soon.



“Vintage” of published emissions factors, relative to when emissions occurred. PwC notes that publication of emissions factors can lag when the emissions actually occur by a year or two. I further note that a primary objective of emissions inventories – like all reporting on non-financial data and information – is to provide “decision-useful information.” Only users of massive amounts of electricity (smelters or refineries, perhaps) can invest in technology to match electricity usage to GHG emissions real-time. You can’t get the actual carbon emissions you’re using to read this blog post right now. PwC recommends use of monthly emissions factors. Perhaps counterintuitively, DHC suggests that this will *improve* the quality and usefulness of data. It is more attainable by a significant swath of reporting entities, resulting in more comparable data for users.

Transition period. PwC encourages GHG Protocol to establish a transition period between publication of updated Scope 2 Guidance and when it is required to be implemented. They go further to suggest field testing of updated standards. This is a sensible embrace of practices done elsewhere. Companies test market new food products. Fast food chains test new sandwiches and entrees. Chemical and pharmaceutical companies pilot test possible changes to manufacturing operations; they do not go from the lab bench to full-scale production. GHG emissions reporting involves collecting, evaluating, analyzing, and processing data and information from many



³ GHG Protocol’s Scope 2 Consultation included 182 questions, including multiple choice and free text fields. I’ve referenced several question numbers in this document.



sources – including sources outside the company. It's complicated. GHG Protocol did not float the prospect of a transition period, but it's brilliant.

Financial Reporting Effect. As one of the Big 4 with offices and clients around the world, PwC has distinctive standing to raise this issue. I was privileged to gain perspective on this first-hand while working at PwC, when I supported financial audit teams in assessing processes, systems, and internal controls pertaining to contingent environmental liabilities. SEC rules require companies to discuss “material” issues in financial filings. This is typically the Management Discussion & Analysis section of the Form 10-K. This precedent was the basis for SASB's approach to creating Sustainability disclosure standards. This potential link cannot be fully appreciated by most stakeholders involved in collecting data for GHG emissions reporting.



Home Run #2: Clarity and Transparency

Several of PwC's comments encourage clarity and transparency, to enable users to make better decisions.

Hierarchy of Emissions Factors. The Consultation acknowledges that emissions factors can be a nettlesome issue. There are several sources for emissions factors, some more reliable and/or applicable to a company's situation than others. There should be a hierarchy of emissions factors. For example, those most directly applicable to the reporting entity are preferred over a global average published in academia five years ago.

Disclosure of Key Aspects of Processes. PwC emphasizes that transparent disclosure of estimation techniques and information about the quality of input data used is a thee in emissions reporting. PwC also recommends that GHG Protocol introduce the reporting concept of “materiality of information” more broadly.

Emissions Factors: Credible Sources and Disclosures. PwC suggests that credible sources [of emission factors] “should be assessed at both the level of the organization providing the information and the methodologies applied.” And that the organization “should be unbiased, independent, and maintain safeguards against conflicts of interest. And that “it should be required to be transparent about the processes and methodologies used to develop the emission factors.”⁴

⁴ Response to Q43.



Home Run #3: Memo to GHG Protocol: Stay in Your Lane

The Scope 2 Consultation floated several changes that would expand roles of the organization. PwC nudged them to “stay in their lane” (my term, not theirs). GHG Protocol should avoid mission creep, which would ultimately lead to confusion among relevant stakeholders: preparers, users, consultants, vendors, and regulators.



GHG Protocol should not assess the suitability of emissions factors. Rather GHG Protocol should “provide a general framework and principles to aid entities in determining which emissions factors are most suitable and relevant” [Q51].

GHG Protocol should focus on setting standards, and should avoid assuming roles for maintaining or tracking emissions factors and similar items. [Q101].

GHG Protocol should not assume responsibility of a registry to track standard supply service (a concept related to renewable energy supplies and accounting methods for emissions from these sources). [Q106]

DOUG'S SUGGESTIONS FOR MORE “BASE HITS”

Scope 2 Comments: Still on Base

PwC touched on other matters where I agree, but would go further. To be fair, some topics align more with the Corporate Standard. There will be opportunity for comment on that soon enough, but it's worth a look here.



Purchased Electricity. PwC recommends that the final definition of “purchased electricity” clearly include purchased steam, heating and cooling consumed by the entity, consistent with the current definition. “Purchased” warrants unpacking, too! I have seen arrangements where lease agreements were inclusive of electricity; without a line item charge, is this “purchased”? I have seen charges for using HVAC systems after hours; this isn't for an attendant – it's for the electricity to run them. Kilowatt hours aren't listed on the bill, but it's still a “purchase.” Providing more clarity would help comparability across reporters.



Definitions. I also suggest clear, unambiguous terms regarding how entities refer to the GHG Protocol. The GHG Protocol's questionnaire includes a question regarding whether an entity "...should be considered *in conformance with* the Corporate Standard and Scope 2 Standard" [Q169]. PwC's comment is "... a reporting entity's ability to assert **compliance with** the related standards" [emphasis added for both]. There are many descriptions including those listed below.

- We follow (or "use" or "reference") the GHG Protocol
- Our methods enable reporting to GHG Protocol
- Our work complies (or "conforms to" or "aligns") with GHG Protocol
- Our processes are consistent with GHG Protocol in all material respects

This isn't "to-MAY-to" / "to-MAH-to". Terms convey different levels of confidence. Users rely on them. It is not yet standard practice to have assurance behind processes, systems, controls, and verification of representations and results in GHG emissions disclosures. What's more, this is not yet standard practice for vendors. Companies – especially smaller companies and those just beginning their GHG emissions disclosure journey (specifically mentioned for consideration in PwC's comments) – rely on vendors.



Vendors choose language to land contracts with prospective customers. There is risk of deception (if not outright fraud) without clear, unambiguous definitions of terms used by preparers and/ or their vendors.



Recalculation Policy. PwC suggested appropriate transition periods [Q75]. I suggest the GHG Protocol should also address how changes to the Scope 2 Standard will trigger reporting entities' requirements for recalculation of emissions for prior years.

Chapter 5 of the Corporate Standard is "Tracking Emissions Over Time." One objective of GHG emissions reporting [indeed, Sustainability reporting on all quantifiable parameters] is comparability. This is comparability between companies reporting on the same parameter, and comparability of a company's performance over time. It is generally understood that companies should recalculate emissions for prior periods if there is a merger,



acquisition, spin-off, or other major change. Other triggers are less commonly discussed, but equally valid, such as discovery of errors or omissions in prior periods.

When the GHG Protocol Scope 2 Guidance is revised, preparers will discover changes from their existing processes, emissions factors, and/or operational inputs. What should be done about the prior reporting periods? Does (or should) that depend on the availability of suitable, reliable information to enable recalculation for prior periods? Should GHG Protocol require an approach to “disclose or explain”, as occurs in the Scope 2 Consultation?

This must be addressed in the next revision of the *Corporate Standard*. However, the *Corporate Standard* and Scope 2 Guidance “talk to each other.” Preparers should have the benefit of both sides of the conversation – including here.



Douglas Hileman has helped companies design, implement, improve, and audit programs in many aspects of Sustainability. Focus areas have included carbon accounting and reporting, Sustainability reporting, environmental and auditing. Client needs included compliance, risk, operational effectiveness and efficiencies, transactions, litigation support, and enforcement. He was the senior environmental management specialist on the Volkswagen Monitor Team.

He is an author of COSO's “Achieving Effective Internal Controls over Sustainability Reporting (ICSR)”. This groundbreaking supplemental guidance is designed to be usable by those “who know internal controls” (Accounting, Audit, Controller, Finance) and those who don't (Environmental, HR, Maintenance, Procurement, Safety). It is available for FREE download on Doug's website, and from COSO.

See www.douglashileman.com