

## EFET response to the GHGP market-based accounting approaches survey

### Summary

The European Federation of Energy Traders (EFET<sup>1</sup>) appreciates the opportunity to provide our inputs and perspectives related to the market-based accounting approaches under the Greenhouse Gas Protocol (GHGP), as consulted<sup>2</sup> by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD.)

Liquid markets are an important building block for the achievement of the EU targets concerning domestic biomethane and renewable and low-carbon hydrogen production. Institutionalized and well-functioning trading based on certification instruments, either bundled with or unbundled from the underlying biomethane or hydrogen, will support this envisioned market maturity. We thus urge the WRI and WBCSD not to prevent corporate users from relying on flexible market-based mechanisms for the purposes of reporting lower Scope 1 and 3 emissions.

Our detailed responses to selected questions of the survey are provided below.

### Detailed comments

#### Purpose

**Question 11: Is the current GHG inventory accounting approach for scope 1 and scope 3 effective in producing an accurate, complete, consistent, relevant, and transparent account of a company's GHG emissions and removals associated with its operations and value chain?**

No

**Question 12: Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.**

#### **Ineffectiveness of the approach proposed in the survey back-ground information**

In a grid-connected system (e.g., for the transportation of natural gas, biomethane, hydrogen), the exclusive use of location-based accounting is significantly counterproductive in supporting the needed transition towards renewable and low-carbon energy consumption. A parallel market-based emission accounting enables demand side signals from consumers and companies to positively affect the transition. By doing this in an intelligent manner, we make use of market forces to drive cleaner and more sustainable

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<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 130 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org)

<sup>2</sup> <https://ghgprotocol.org/sites/default/files/Market-based%20accounting%20Survey%20Memo.pdf>

energy consumption. Without a market-based alternative, we sterilise the impact the consumers and companies can have in this needed development. This is further elaborated under point 14 below.

### **Inaccuracy of the survey background information**

The Greenhouse Gas Protocol Scope 2 Guidance, issued by the WRI in 2015, provided for requirements accounting for energy contracts' emissions, and the different criteria to be fulfilled by contractual instruments. It specifies that electricity and heat certificates must be used in the market where they have been produced, and within a particular and limited timeframe. As for biomethane injected into a pipeline, we note that the 2015 Guidance states the following<sup>3</sup>:

*"If a company has a contractual instrument specifying its gas supply as "biogas" or "biogenic," the company should report using the market-based method and refer to the Scope 2 Quality Criteria to evaluate whether its gas use should be reported as scope 1 natural gas using a standard emission factor, or as biogenic CO2 emissions reported separately from the scopes. This evaluation requires some interpretation, since the Scope 2 Quality Criteria are specific to electricity and their guidance must be translated for use with gas. For instance, criterion 1 in relation to GHG emission rate claims should be also interpreted to include the emission rate specific to the biogenic fuel origin. The CO2 emissions will be influenced by the heat rate / efficiency of the equipment used to consume the gas."*

The above paragraph has been removed from the version of Guidance 2 currently available on the GHGP website<sup>4</sup> as a result of a list of pertinent corrections published in 2020<sup>5</sup>.

However, as the above provision from the original version of Guidance 2 has supported the establishment of certificate-driven markets for producers and buyers of biomethane worldwide, we are aware that corporate users perceive as allowed the application of the dual reporting concept to report lower Scope 1 emissions from biomethane, i.e., both the "location-based" emission (kWh consumed \* grid factor for location of consumption) and the "market-based" emission (based on attributes of biomethane certificates). Therefore, the background information provided in this survey is neither accurate nor does it consider the uncertainty created in the market following the removal of the above provision on Scope 1 from the 2015 Guidance without consultation and without issuing complementary guidelines.

We therefore identify substantial evidence allowing the use of a market-based accounting approach under Scope 2, and we urge the GHG Protocol not to exclude and to clearly allow the use of flexible market-based mechanisms for reporting of emissions based on purchased biomethane under Scopes 1 and 3.

<sup>3</sup> Page 97 [https://ghgprotocol.org/sites/default/files/ghgp/standards/Scope%20%20Guidance\\_Final\\_0.pdf](https://ghgprotocol.org/sites/default/files/ghgp/standards/Scope%20%20Guidance_Final_0.pdf)

<sup>4</sup> <https://ghgprotocol.org/sites/default/files/standards/Scope%20%20Guidance.pdf>

<sup>5</sup> [https://ghgprotocol.org/sites/default/files/standards\\_supporting/List%20of%20Corrections%20to%20the%20Scope%20%20Guidance\\_0.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/List%20of%20Corrections%20to%20the%20Scope%20%20Guidance_0.pdf)

**Question 13: Do you think there is a need for market-based accounting approaches related to scope 1 GHG reporting?**

Yes

**Question 14: Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.**

**Market-based accounting as an incentive to upscale biomethane output**

Liquid markets are an important building block for the achievement of the EU targets concerning 35BCM of domestic biomethane production, and 20Mt of hydrogen production and imports by 2030. Transparent and robust price signals are needed to incentivise efficient resource allocation and medium-term investments. Institutionalized and well-functioning trading based on certificates, either bundled with or unbundled from the underlying biomethane or hydrogen, will, in line with the proposed and adopted EU regulatory framework, support the envisioned market maturity for the achievement of the 2030 targets.

Like RES PPAs, coupled with issuance and cancellation of GoOs, which have been important for RES electricity supply in demonstrating demand, equivalent standard RES gas purchase agreements would leverage investment in biomethane and renewable and low-carbon hydrogen. EFET has been actively working on contractual standardisation endeavours looking at both biomethane and hydrogen trading.

Therefore, banning companies from using the market-based approach under Scope 1 would undermine the EU-wide effort to increase biomethane and hydrogen production through new investments in hardware stimulated by the cross-border trading of standardised and mutually fungible certification instruments, on the basis of a harmonised EU regulatory framework.

**Elements of market-based accounting – certification principles**

A market-based accounting approach must be based on the principles of a robust certification system. Furthermore, the certificate must be issued by a certified issuer, while measures to avoid double counting must be in place. We encourage CGHGP to work further on developing a guide for certification principles.

**New e-fuels and the hydrogen economy**

The hydrogen economy opens a significant pathway to decarbonisation. In supporting this, market-based accounting is extremely important.

A pipeline-based hydrogen supply grid is emerging in Europe and other continents, and clean hydrogen will be critical to achieve net zero. A core mechanism to decarbonize “hard to abate” sectors is the implementation of binding targets for renewable and low-carbon hydrogen. These targets create a “demand-pull” enabling both the decarbonisation and the development of a hydrogen industry. The documentation of hydrogen consumption will

come in the form of certificates. Hence, the ability to document consumption via certificates is central to enabling the decarbonisation.

Further, and compared to biomethane, the market for hydrogen and hydrogen certificates is still in its infancy. However, there have been a few initiatives aimed at designing and implementing hydrogen GoO systems within and outside Europe. The income generated from the sale of these certificates will likely be a crucial part of the income generated by hydrogen project developments and thereby their overall business case for investing in new green production facilities.

**Question 15: If yes, what would be the purpose or objective(s) for incorporating market-based accounting approaches in scope 1 GHG emission reporting? You may enter brief comments here or submit a more detailed proposal using the proposal template.**

The purpose and need for marked based accounting are elaborated above. On the other hand, an approach based solely on the average bio-content of the gas in the grid would disincentivise the envisioned growth in demand. Companies seek to receive biomethane and renewable and low-carbon hydrogen via the natural gas network to prove consumption using GoOs or mass-balanced Proof of Sustainability (PoS) certificates.

Although the GHGP is a voluntary reporting standard, companies should be able to report against the GHGP by accounting their purchasing decisions (e.g., purchase of biomethane with GoOs, or of a PPA coupled with issuance and cancellation of GoOs). Otherwise, the GHG emission reporting would end up conflicting with the regulatory state of play in the EU currently and in a couple of years' time, following revisions of the Renewable Energy Directive and the Gas Directive.

Based on Directive (EU) 2018/2001 (RED II), GoO registries are being set up in all Member States to ensure reliable disclosure of the renewable origin of the gas consumed to end-customers (art. 19 of RED II). Biomethane is recognized as zero-rated under the EU Emissions Trading System (ETS) according to the Monitoring and Reporting Regulation (art. 38 and 39), provided that the RED II sustainability and GHG savings criteria are satisfied by mass balancing certification under a voluntary scheme recognised by the EU Commission (art. 25-30 of RED II).

The EU Commission has proposed to recast RED II. The proposal includes a new article 31a on the Union database for tracing liquid and gaseous renewable fuels and recycled carbon fuels. Economic operators shall be required to enter information on the transactions made and the sustainability characteristics of the fuels subject to those transactions into this database to enable the tracing of the fuels. To avoid double counting, it is operationally reflected for GoOs to be embedded into PoS certificates and to be cancelled upon withdrawal of the gas from the single logistical facility.

The EU Commission has also proposed to recast the existing Gas Directive 2009/73/EC. The revised Gas Directive will include a new article 8 on the certification of low-carbon fuels which will set out additional requirements for the certification in line with articles 29 and 30 RED II (i.e., requirements on the sustainability criteria and mass balance). The additional

requirements require economic operators to prove a certain threshold of GHG emissions savings based on certificates.

Considering the above legislative framework and upcoming legislative developments at EU level, we may end up in a situation where corporate emissions reporting for EU ETS compliance would yield different numbers compared to reporting under the GHGP, as only the former would be based on the amount of biomass in the whole grid matching the amount given in the certificate, irrespective of the physical location of the biomethane.

More importantly, there currently is trading – purchases of biomethane and/ or associated certificates for use under the GHGP across Scopes 1 and 3. Revision of the standard will take several years, which makes it difficult for contracts, such as the draft EFET Biogas Certificates Single Trade Agreement, to include clear provisions referring to the possibility of a shift to the location-based approach. This may impact the trade in a significant manner.

**Question 16: Do you think there is a need for market-based accounting approaches related to scope 3 GHG reporting?**

Yes

**Question 17: Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.**

We elaborate above on the need for activating the demand side to drive the energy transition. According to the 2013 WRI and WBCSD Technical Guidance on Scope 3<sup>6</sup>, Scope 3 refers to the emissions a company is responsible for outside of its own wall (from the goods it purchases to the disposal of the products it sells.) Like companies, consumers equally seek to support the deployment of biomethane and hydrogen via demand. In a system based on high- and medium- / low-pressure pipelines, this demand can only be met via certificates (see responses to questions 14-15). Scope 3 consumers of biomethane and hydrogen, such as the chemical and fertiliser industries, should be allowed to account for market-based supply for these industrial inputs.

**Question 18: If yes, what would be the purpose or objective(s) for incorporating market-based accounting approaches in scope 3 GHG emission reporting? You may enter brief comments here or submit a more detailed proposal using the proposal template.**

If a company procures sustainable gases via market-based instruments to report lower Scope 1 and/ or Scope 2 emissions, these lowered emissions ought to be recognised in an associated company's Scope 3 emissions reporting. This would incentivise consumers to contract with companies which provide sustainable gases. Moreover, sales of certificates by biomethane/ hydrogen producers for Scope 3 consumers to prove procurement and use of green fuels (e.g., as industrial input) for their GHG accounts would ultimately increase the profitability of existing and new production facilities.

In a general note, as also stressed in response to question 15, trading occurs across Scopes 1 and 3. Therefore, not incorporating market-based accounting approaches under Scope 3

<sup>6</sup> <https://ghgprotocol.org/scope-3-technical-calculation-guidance>

GHG emission reporting would equally remove an incentive for market participants to trade biomethane bundled with certificates, or not, as transactions in biomethane and/ or the associated certificates may relate to use in a voluntary scheme on an international scale such as the GHGP. Consequently, contractual standards, such as the draft EFET Biogas Certificates Standard Agreement, will have to be revised. This may impact risk allocation and contractual claims in view of a highly dynamic framework.

## Accounting approach

**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

**Question 20: Please explain your selection. You may enter brief comments here or submit a more detailed proposal using the proposal template.**

Expanding the supply of biomethane and renewable and low-carbon hydrogen by means of market-based instruments represents a significant step towards reducing emissions. A certificate-driven system, such as the EU-wide system of GoOs, ensures that GHG accounting through purchased and cancelled certificates is based on the actual production of renewable and low-carbon gases.

**Question 21: 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.**

An example of how a robust certification system can work in practice is provided under the draft and adopted EU regulatory framework. To ensure that the same biomethane quantity is not double counted, i.e., that the biomethane purchased is not claimed to be used by anyone else including via disclosure of a biomethane GoO, this GoO is either transferred to the customer or cancelled on their behalf. For this to happen, the GoO must comply with the requirements set out in article 19 RED II – and the pertinent national legislation transposing RED II.

As noted above, the initial EC proposal for revision of RED II foresaw cancellation of the GoO before registration of the biomethane consignment on the Union database with a view to avoiding double claims. Based on that proposal, the PoS bundled with a MWh of biomethane would be the sole certification instrument proving the sustainability of injected volumes. However, based on stakeholder feedback, the EC has decided to prolong the life of GoO until final consumption, which is why they are operationally designing the UDB based on the integration of a GoO into a PoS, provided they will be mandated to materialise this under RED III.



**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

## Role in corporate GHG reporting

**Question 31: Please select which of the following option(s) best represents how you think purchases of offset credits (see background memo on types of market instruments) should be accounted for within corporate GHG inventory reporting. Please select all that apply:**

- Reported in a GHG inventory report, separately from scope 1 and/or scope 3 emissions, to provide transparency and context on actions the company is taking to reduce emissions (similar to reporting avoided emissions or impacts of specific actions separately from scope 1, scope 2, and scope 3 emissions)
- Reported in a GHG inventory report, separately from scope 1 and/or scope 3 emissions, which could potentially be used to contribute to achieving a company's GHG target(s)
- Used to calculate scope 1 emissions
- Used to calculate scope 3 emissions

**Question 32: Please explain your selection for purchases of offset credits.**

Precursory to carbon offset credits, the mitigation hierarchy must be followed; avoid, reduce, compensate. Subsequent to that hierarchy, offsets play an important role in meeting corporate GHG targets. They are important decarbonization levers and should be included alongside other emission reduction measures. Transparency is required when offsets are included in inventory reporting. There must be assurance or auditability that offsets are only claimed once.

**Question 33: Please select which of the following option(s) best represents how you think purchases of inset credits (see background memo on types of market instruments) should be accounted for within corporate GHG inventory reporting. Please select all that apply:**

- Used to calculate scope 1 emissions
- Used to calculate scope 3 emissions

**Question 34: Please explain your selection for purchases of inset credits.**

Insets fall within a reporting corporate user's value chain. They should thus be counted under the GHGP Scopes. The accounting mechanism for the inset/carbon reduction is not

yet well established. When this accounting system is developed, auditability and transparency will be key underlying principles.

**Question 35: Please select which of the following option(s) best represents how you think supply shed/value chain interventions (see background memo on types of market instruments) should be accounted for within corporate GHG inventory reporting. Please select all that apply:**

- Reported in a GHG inventory report, separately from scope 1 and/or scope 3 emissions, which could potentially be used to contribute to achieving a company's GHG target(s)

**Question 36: Please explain your selection for supply shed/value chain interventions.**

Supply shed/ value chain interventions may not always form part of a reporting corporate user's value chain. They should thus be considered voluntary and not counted under the GHGP Scopes.

**Question 37: Please select which of the following option(s) best represents how you think mass-balance certification approaches (see background memo on types of market instruments) should be accounted for within corporate GHG inventory reporting. Please select all that apply:**

- Used to calculate scope 1 emissions
- Used to calculate scope 3 emissions

**Question 38: Please explain your selection for use of mass-balance certification.**

Certification of compliance with the RED II sustainability criteria must be based on the principle of mass balancing, which implies a certain degree of physical tracking. Specifically, article 30 RED II determines the quantity of biomethane used from purchase records, i.e., evidence of a continuous supply chain from the producer to the purchaser including auditing of the mass balance by voluntary certification schemes. Trading may occur in biomethane GoOs only (without the underlying biomethane), GoOs plus mass balance or GoOs, mass balance and the underlying biomethane.

**Question 39: Please select which of the following option(s) best represents how you think book-and-claim certification (see background memo on types of market instruments) should be accounted for within corporate GHG inventory reporting. Please select all that apply:**

- Used to calculate scope 1 emissions
- Used to calculate scope 3 emissions



**Question 40: Please explain your selection for use of book-and-claim certification.**

GoOs can be transferred separately or bundled with the physical transfer of energy (book-and-claim.) Where renewable and low-carbon gases are produced and consumed off the grid or through local distribution networks, the use of a book-and-claim system based on GoOs can be an option. This is to enable disclosure of information on the volumes of gaseous fuels produced in such locations and, thus, to enable these parties to gain access to the broader market, pending physical connection.

**Question 41: Do you think there are other market-based accounting approaches that can be reported as part of corporate GHG inventory reporting? If so, what role, and why? Please select all that apply:**

- No role in corporate GHG reporting

**Question 45: Would market-based accounting approaches be appropriate for some sectors but not others? (Example sectors include electricity, natural gas/biomethane, aviation fuels (SAF), oil, agricultural commodities, transport/shipping, hydrogen, steel, aluminum, and others.) What are the differences between sectors or conditions that would make it appropriate or not appropriate? Please briefly explain your selection or use the proposal template for a more detailed reply.**

An accounting approach accommodating the use of flexible market-based mechanisms through certification schemes is particularly important to reflect the commercial reality of how grid-based energy products are transacted and to drive demand for these products. We encourage the GHG secretariat to pay close attention to markets where MBMs work well, such as the EU. Close collaboration with industry is required to ensure sector differences and accounting principles are well understood.

## **Role of GHG Protocol accounting and reporting standards vs GHG target setting or reduction programs**

**Question 46: The GHG Protocol sets standards but does not administer any program (e.g. disclosure or target-setting). Given several programmatic considerations such as those listed above, would market-based approaches be more effectively implemented by GHG target setting or reduction programs or regulatory bodies, rather than by the GHG Protocol, in order to provide additional rules and decisions as well as ensure their administration, verification, and enforcement?**

Yes

**Question 47: Please briefly explain your selection for who should provide rules and decisions on the accounting and reporting specifications, administration, verification and enforcement of market-based approaches.**

The GHGP is arguably the most relevant global framework enabling private and public sectors to transparently measure, monitor and report the GHG emissions of their operations. Any targets and disclosures under the Science Based Target Initiative (SBTi), the Carbon Disclosure Project and the RE100 initiative use the guidance it sets. There are

currently 2,106 large companies in Europe using the SBTi and its GHGP framework. Therefore, for the GHGP reporting standards to remain relevant across all three Scopes, we ought to allow the use of market-based instruments which reflect the commercial reality of how grid-based energy products are transacted at the moment. For this reason, the GHG Protocol should focus on maintaining an overall standard with general principles, rather than attempting to issue overly detailed implementation rules which risks becoming irrelevant, outdated and largely in conflict with the EU regulatory framework.