Submitted via E-mail
Vanessa A. Countryman
Secretary
Securities and Exchange Commission
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RE: Comments on Greenhouse Gas Accounting and Attestation Aspects of the "The Enhancement and Standardization of Climate-Related Disclosures for Investors," Proposed Rule by the Securities and Exchange Commission (File No. S7-10-22)

Honorable Officials,

On behalf of the Greenhouse Gas Management Institute (GHGMI) and our supporting signatories, I welcome the opportunity to provide comments to the Securities and Exchange Commission's Proposed Rule on The Enhancement and Standardization of Climate-Related Disclosures for Investors (File No. S7-10-22). GHGMI is a 501(c)(3) non-profit organization with a mission of building and supporting a global community of experts with the highest standards of professional practice in measuring, accounting for, auditing, and managing greenhouse gas (GHG) emissions. Our Institute is dedicated to training the ever-growing GHG professional community on the principles, concepts, and methods to manage and credibly account for GHG emissions and removals at the national, corporate, and project levels. This effort is critical to ensuring that the development of market mechanisms, mitigation target setting along with the design of GHG-related performance metrics and quality assurance systems, and policy responses to address climate change are effective and credible. In the last 15 years, GHGMI has worked with over 8,000 experts from more than 180 countries with the goal of supporting the development of the social infrastructure necessary to effectively implement future climate policies at all levels.

GHGMI's research work is guided by scientific inquiry and we conduct forward-looking independent research and key GHG emissions accounting and management questions. Therefore, our comments hereby provided address only the aspects of the proposed rule addressing the requirements for registrants to provide investors "consistent, comparable, and reliable" information on "regulatory, technological, and market risks driven by a transition to a lower-GHG intensive economy".

Cross-Cutting Comments on the Proposed Rule

- **Not allowing market-based method for Scope 2 emissions:** We strongly urge the final rule to exclude the use of the market-based methodology for Scope 2 emissions calculation and reporting. For the purpose of corporate GHG emissions reporting, the methodology established by the Scope 2 Guidance/GHG Protocol **does not** reflect an organization's physical consumption of grid-delivered electricity or the actual emission rate of that consumption. The market-based approach to Scope 2 is technically flawed and breaks with fundamental principles of attributional GHG accounting, and its impact on the accuracy and relevance of GHG inventories has been well-documented by lead practitioners and institutions. To align the rule with its own goal towards informing investors with proper reliable information, removing market-based accounting would be a path towards providing them with a credible source of GHG information (including any accompanied credible target-setting and reporting). The ISO 14064-1 standard has recognized this flaw in the market-based method and demoted it in its 2018 update. See this resource for the scientific evidence base for our comment on this issue: https://www.offsetguide.org/green-power-faq/.

Instead, we recommend that reporting on indirect emissions from the consumption of grid-supplied electricity (i.e., Scope 2 from purchased electricity) should only be done on the basis of U.S. EPA Emissions & Generation Resource Integrated Database (eGRID) average emission factors by location.

- **Consistency with the treatment of Energy Attribute Certificates (EACs) and Renewable Energy Credits (RECs) and their definition:** The ruling provides two different definitions for RECs. The second (on page 460) definition is correct, while the first (on page 77) is incorrect. RECs do not represent delivery to a specific power grid (e.g., a purchase of REC will not automatically result in delivery of electricity to the registrant's power grid). Also, a purchase of a REC does not represent "purchasing" or delivery of electricity – it is only a record of generation occurring.
    - **Proposed definition on page 77: "***We are proposing to define a REC, consistent with the EPA's commonly used definition, to mean a credit or certificate representing each purchased megawatt-hour (1 MWh or 1000 kilowatt-hours) of renewable electricity generated and delivered to a registrant's power grid."*
    - **Second Definition on page 460***: "Renewable energy credit or certificate ("REC") means a credit or certificate representing each megawatt-hour (1 MWh or 1,000 kilowatt-hours) of renewable electricity generated and delivered to a power grid."*

- **Offsets and RECs should not be treated as a similar category (e.g., pages 78, 135, & 455):** A carbon offset credit is a transferrable verified and certified tradable instrument representing an emission reduction (or removal enhancement) equivalent to one metric tonne of CO_2. In contrast, and as identified in the rule's definition of REC, voluntary RECs are a tradable instrument recording the generation of one megawatt-hour of electricity (net) that has been delivered to the grid (but not to a consumer). RECs, therefore, cannot validly be used to claim an emission reduction or as a substitute for a carbon offset credit because RECs do not correspond to GHG reductions.

  Further, all empirical evidence shows that the voluntary retirement of RECs (versus their use for Renewable Portfolio Standard (RPS) compliance) is highly unlikely to have any significant influence on investment in, and therefore generation from, renewable energy generators. (See this resource for a scientific evidence base for our comment on this issue: https://www.offsetguide.org/green-power-faq/.) Categorizing RECs as a means of meeting GHG reduction goals violates GHG accounting principles as well as provides erroneous and misleading information to users of corporate GHG emissions disclosures. In all cases, any tradable environmental instruments should always be reported separately from actual physical emissions from the sources and sinks in a company's GHG accounting boundaries.

- **Imprecise elaboration of good practice climate-related data quality principles:** The text in the proposed rule should be meticulously reviewed and revised to refer to and properly use the climate data quality principles for GHG reporting established by the Intergovernmental Panel on Climate Change (see Volume 1, Chapter 1 at https://www.ipcc-nggip.iges.or.jp/public/2006gl/vol1.html). The proposed rule struggles in numerous places to use defined and precise principles terms (e.g., creates an undefined principle of "reliability" on pages 8 and 14; uses the term "consistency" to refer to a range of different concepts throughout the document; does not precisely distinguish the difference between "consistency" and "comparability" and, at times, confuses them). Also lacking in the proposed rule is how it wishes to address the principle of transparency, although it is widely understood as the overarching principle of all GHG accounting (e.g., the term "clarity" is used on page 121 & further but not defined).

  The SEC seems to be unaware, and therefore, should consider that the data quality principles laid out in the current version of the GHG Protocol for corporate GHG accounting (also in ISO 14064-1) exclude the principle of "comparability" between corporate reporting of GHG emissions and removals. In other words, the corporate reporting under the GHG Protocol is not designed to be comparable between companies. Further, within the discussion commentary of "flexibility" in the GHG reporting elements of the proposed rule, it should be addressed how filers are to strive to maintain "comparability" while exercising flexibility. Note that the GHG data quality principles in the existing GHG Protocol are targeted for revision (see https://ghginstitute.org/2022/01/27/the-overlooked-mystery-of-the-missing-ghg-accounting-principle/).

- **Recognition of the limited standardization in corporate GHG accounting:** Though the GHG Protocol is the leading corporate GHG emissions accounting guide worldwide, it primarily offers guidance with a high degree of user discretion and flexibility in the interpretation of major assumptions, such as setting emissions inventory boundaries. As such, it is not strictly an auditable standard. We are surprised that ISO 14064-1 was not also referenced in the proposed rule, given that it is more designed as an auditable standard, although it too allows for a great deal of flexibility in assumptions and boundaries. We would argue that filers should avail themselves of any good practice guidance available and recognized by the technical GHG accounting expert community. For example, there is a great deal of rigorous technical guidance developed by The Climate Registry (TCR) that offers valuable elaboration and supplementation to the GHG Protocol and ISO 14064-1. Another example is detailed guidance for corporate accounting by electric power companies that my organization developed with the Electric Power Research Institute. The SEC should also note that the GHG Protocol will be undergoing revision soon, which will impact the basis for the proposed rule. We agree with the language in the proposed rule under *Chapter IV, Section F, Part 3. Require specific external protocol for GHG emissions disclosure*" in abstaining from requiring adherence to specific guidance and protocols.

  We understand the desire of the SEC and future filers to have a single unambiguous standard to reference for their GHG emissions quantification and reporting. Unfortunately, the reality is that

GHG emissions accounting for corporate entities, versus national states, is still a maturing field in terms of its move towards rigorous comparability (i.e., standardization).

- **Emissions data quality and avoiding contradictory data submissions:** Recognizing that the proposed rule is to stand alongside the existing federal mandatory GHG emissions reporting rule (i.e., is not intended to serve as an on-ramp to future mandatory GHG emissions mitigation efforts under a compliance regime) and is intended to operate in addition to State regulatory programs such as California's mandatory climate regulations and GHG reporting requirements.

  We suggest that corporate-wide direct emissions reporting (scope 1) should explicitly utilize existing reporting requirements enacted and applicable at the facility level for those filers subject to federal or state mandatory GHG reporting regulations. These facility-level emissions disclosures should be combined with other direct emission source estimates and then be rolled up into organizational-wide boundary totals. To do otherwise is to suggest companies may report contradictory data to different government regulatory bodies.

<u>Comments to Select Questions and Provisions on Attestation in Proposed Rule</u>

Question 135: "Should we require accelerated filers and large accelerated filers to obtain an attestation report covering their Scope 1 and Scope 2 emissions disclosure, as proposed?"

Comment: We believe there is value added in the process of independent review and attestation, recognizing that there is still enormous subjectivity (i.e., lack of technical standardization) in corporate GHG accounting, especially with respect to indirect emissions (i.e., Scopes 2 and 3).

Question 136: "Should we require all Scope 3 emissions disclosure to be subject to assurance or only certain categories of Scope 3 emissions? Should the requirement be phased-in over time?"

Comment: Currently there is a lack of agreed accounting boundary and quantification methodology standardization for indirect emissions (i.e., Scopes 2 and 3), especially for full value chain accounting of upstream and downstream emissions. Therefore, the assurance of reported indirect GHG emissions data will, for some time, be a more subjective exercise and difficult because of a lack of a well-defined standard or set of criteria to assure to.

In a few select economic sectors, there is a more established technical basis for indirect emission reporting. For example, for the oil and gas industry, it would be possible to incorporate existing life-cycle analysis methods and guidance developed for the California Air Resources Board's Low Carbon Fuel Standard. Specifically, Title 17 of the California Code of Regulations, § 95489 includes Table 9, "Carbon Intensity Lookup Table for Crude Oil Production and Transport", which lists carbon intensity factors (gCO_2e/MJ) by country of origin and crude oil identifier codes. This analysis was developed using the OPGEE model and differentiates between Canadian "Long Lake Heavy" crude (30.54 gCO_2e/MJ) and "Alaskan North Slope" crude (15.91 gCO_2e/MJ). Table 9 will be considered for update every three years. The use of such widely-reviewed factors would serve to standardize responses and reporting for this sector.

Question 143 (ii)(d): "What are the costs and benefits of employing registered public accounting firms to perform audits of GHG emissions disclosure and related attestation of internal controls?"

Comment: The current language in the proposed rule should better recognize that more technical bodies (e.g., environmental engineering and other technical service providers) are as, or more, likely to have the knowledge and competencies to conduct and assure GHG accounting work. Further, these non-accounting firms are likely to offer cost savings, as well as higher quality technical work, to filers. Given how this rule will increase demand for such services, it would be imprudent to prematurely limit participation to financial accounting firms when greater demand may lead to shortages and delays in meeting the proposed rule's timeline.

Provision on Page 239, *Chapter II, Section H, Part 2.GHG Emissions Attestation Provider Requirements*: "The proposed rules would define a GHG emissions attestation provider to mean a person or a firm that has all of the following characteristics:

- Is an expert in GHG emissions by virtue of having significant experience in measuring, analyzing, reporting, or attesting to GHG emissions. Significant experience means having sufficient competence and capabilities necessary to:
    - perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and
    - enable the service provider to issue reports that are appropriate under the circumstances"

Comment: We support this provision outlined on page 239 (as copied herein) and view that it supports our comment to question 143(ii)(d) above. We would suggest that it be further clarified that by "experience" it is meant that experts have proper technical knowledge and competencies in STEM fields related to the sources and sinks of GHG emissions and removals being quantified.

We thank you for granting us the opportunity to provide comments on this proposed rule. If you have any questions, please don't hesitate to contact me.

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