Greenhouse Gas Protocol Revision Scope 3.15 / 3.16

White Paper on selected proposed revision items of the GHGP Scope 3 revision process

Document type: Executive Summary

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Preliminary Note

- Published in 2011, the Greenhouse Gas Protocol (GHGP) Scope 3 Standard has since been widely recognized as the **leading international framework** for organizations to measure and disclose greenhouse gas emissions across their value chains. The standard outlines 15 distinct categories of value chain emissions, structured into upstream and downstream activities.
- The GHGP is **currently undergoing a comprehensive revision** (2024 - 2027). A group of international energy suppliers **collaboratively co-authored a practitioners' analysis** of revision items affecting current GHG Accounting practices along the energy value chain.
- Preliminary GHGP deliberations regarding **revisions to Scope 3 Categories 15 and the proposal to adopt a new category 16** would significantly expand utilities' reporting scope – particularly for traded and distributed energy – risking unproportionally inflated GHG inventories without reflecting actual emissions or supporting effective corporate decarbonization.
- Drawing on practical experience, this document outlines **key challenges and recommendations** to ensure Scope 3 accounting remains accurate, comparable, and focused on actual emission reductions while safeguarding energy security of supply and affordability.

Executive Summary

Context: Utilities' GHG accounting and decarbonization levers

The characteristics and distribution of greenhouse gas (GHG) emissions between different emission scopes vary for companies in the energy sector. Significant categories representing emission hotspots often include **Scope 1 emissions** (for companies using fossil fuels for heat and power generation), **Scope 3.11** (for utilities with a significant gas retail business) and **Scope 3.3** (for companies selling electricity to end customers). Other Scope 3 categories as well as Scope 2 are often relatively small compared to the above-mentioned Scope 1 and 3 categories.

While **Scope 1 decarbonization is largely asset- and technology-driven, Scope 3 mitigation depends on systemic changes** in energy demand, end-use technologies, and market structures, underscoring the central role of accounting boundaries in shaping corporate decarbonization strategies.

GHGP revisions: key challenges and practical barriers

Preliminary GHGP deliberations in the Scope 3 Technical Working Group meetings[1] expand accounting requirements to cover business activities from:

a) **purchased and sold commodities** to be reported either under Scope 3.15 "investments" (required) or under Scope 3.16 "facilitated emissions" (optional)[2].

b) **distributed energy and fuel volumes** of grid and pipeline operators/distributors to be reported under Scope 3.16 "facilitated emissions" (required). Cat. 16 is a newly proposed category.

[1] S3-Phase2-Meeting1-Presentation-20250828

[2] Whether to include commodities purchased but not consumed by the reporting company, in cat. 15 or cat. 16, is still being considered by the TWG (see p. 70, Scope 3 Standard Revisions Phase 1 Progress Update)

Companies involved in said business activities shall account for both the cradle-to-gate and gate-to-grave (i.e. full life cycle) emissions of the fuel/energy in category 15/16. Whether a) purchased and sold commodities may be optionally reported under Cat. 16, instead of required to be reported under Cat. 15, is still being considered by the TWG.

While these changes aim to improve transparency, including midstream business activities raises several practical implementation challenges:

- **Commodity trading volumes do not reflect actual physical emissions**
  In contrast to other Scope 3 categories (e.g., Scope 3.11, Use of Sold Products), Scope 3.15 would be based **largely on financial transactions, not on physical energy flows**. Traded gas volumes are primarily influenced by market dynamics and other external variables rather than the actual quantities of gas physically produced, transported, and combusted and therefore have no significant effects on decarbonization. Calculating emissions from physical gas volumes together with financially-traded gas volumes obscures the distinction between actual emissions with a greenhouse effect and "theoretical" emissions, meaning purely notional emissions that exist only as a result of financial transactions.

- **Risk to security of supply and affordability**
  Both commodity trading and the operation of gas distribution networks play a crucial role in keeping energy markets liquid and secure. GHG accounting rules that discourage trading and transportation could reduce market liquidity and **increase prices and commercial risk**. This may become a serious **social issue** (safeguarding living standards) since consumer prices would go up as well.

- **Inflated GHG inventories**
  As a result, including midstream activities (e.g., trading, hedging, transmission & distribution) in Scope 3 would artificially **inflate corporate GHG inventories**, resulting in unproportionally increased double-counting. This weakens the focus on and shifts responsibility away from where GHG emissions actually occur – at the use-phase from the combustion of fossil gas.

- **Weaker incentives for downstream decarbonization efforts**

  By shifting attention to "theoretical" emissions, the proposed approach risks diverting efforts away from downstream decarbonization. This undermines the standard's objective to "help companies develop effective strategies for managing and reducing their scope 3 emissions (..)".[3]

- **Clarity and comparability needed**
  The practitioners engaged in this position paper advocate for **clear definitions and guidance** for when a transaction qualifies as an investment vs. a security of supply measure. Without these, **significant interpretive uncertainty** would undermine the goal of preparing "true and fair" Scope 3 GHG inventories in a cost-effective way. Increasing reporting complexity **reduces comparability** across organizations, thereby limiting the standard's objective of supporting "consistent and transparent public reporting".

[3] Scope 3 - Standard Development Plan - 2024.12.20, p. 5

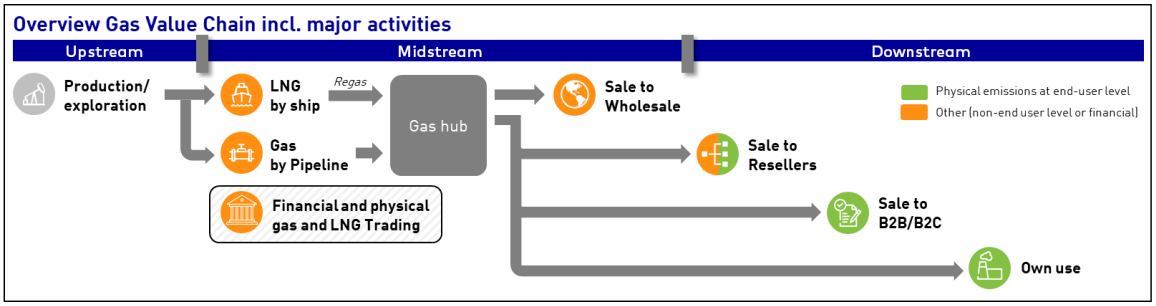

Chart 1: Overview of the Gas Value Chain, representing major activities; Source: EnBW

Recommendation for effective Scope 3 Standard revision

To sustain a positive trajectory of effective climate action towards reaching net zero, the practitioners engaged in this position paper advocate for a **clearly defined, objective-driven reporting scope**, based on **consistent definitions** and **sector-specific methodologies**. Such an approach is essential to enable decarbonization efforts that are applicable, measurable, scalable, and ultimately effective.

An effective approach should:

- Establish a **clear and unambiguous distinction** between physical end use of commodities such as gas and purely financial or trading activities.
- Focus on **actual physical emissions at the end-user level** to reduce emissions from the combustion of fossil gas - *one of the ultimate challenges of decarbonization in the energy sector.*
- Exclude midstream activities (e.g., trading, hedging) as their inclusion would otherwise **distort the GHG inventory** and result in unproportionally increased double-counting.

The recommendations are compiled on the basis that **industry stakeholders and standard-setting organizations share common objectives** - *driving global climate action* - and that strong coordination between them is essential. From the practitioners' perspective, the GHG Protocol should be designed in a way to **assist companies manage the energy transition** while **maintaining market efficiency**, thereby supporting the global economy. This means **simultaneously ensuring security of supply and safeguarding living standards** while achieving significant **emissions reductions**.

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