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Greenhouse Gas Protocol
World Resources Institute
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World Business Council for Sustainable Development
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Re: Updates to GHG Protocol's Corporate Standard, Scope 2 Guidance, Corporate Value Chain (Scope 3) Standard

To Whom It May Concern:

Chevron is pleased to submit comments in response to the World Resources Institute (WRI) and the World Business Council for Sustainable Development's (WBCSD) request for stakeholder input on updates or additional guidance related to the GHG Protocol Corporate Accounting and Reporting Standard, Scope 2 Guidance, Corporate Value Chain (Scope 3) Standard, and supporting documents.

Chevron is one of the world's leading integrated energy companies. We believe affordable, reliable and ever-cleaner energy is essential to achieving a more prosperous and sustainable world. Chevron produces crude oil and natural gas; manufactures transportation fuels, lubricants, petrochemicals and additives; and develops technologies that enhance our business and the industry. We are focused on lowering the carbon intensity in our operations and growing lower carbon businesses along with our traditional business lines.

Chevron believes in providing our stakeholders with relevant, robust climate-related information that is consistent, comparable, reliable, and decision-useful. To provide information on Environmental, Social, and Governance (ESG) matters and share our progress with a broad set of stakeholders, Chevron has issued multiple, detailed voluntary climate reports and sustainability reports, leveraging leading frameworks and standards, including the GHG Protocol.

Chevron has voluntarily reported GHG emissions (Scope 1, 2, and category 11 of Scope 3) for more than two decades using a corporate standard based on the GHG Protocol and industry-specific guidance. Chevron supports well-designed disclosures of GHG emissions to provide comparable and relevant data, as described in Chevron's most recent voluntary Climate Change Resilience Report.[1] In furtherance of such goals, Chevron has contributed to standards and guidance development including to the GHG Protocol Corporate Standard, the Product Life Cycle Accounting and Reporting Standard, and the Corporate Value Chain (Scope 3) Accounting and Reporting Standard through WRI and WBCSD, and industry-specific guidance such as those managed by IPIECA, the American Petroleum Institute, and the International Organization for Standardization.

We appreciate the opportunity to provide comments on selected topics requested by the Surveys on GHG Protocol Corporate Standards and Guidance.[2]

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[1] Chevron Corp., *Climate Change Resilience: Advancing a Lower Carbon Future* (Oct. 2021), available at https://www.chevron.com/-/media/chevron/sustainability/documents/climate-change-resilience-report.pdf.
[2] Surveys on GHG Protocol Corporate Standards and Guidance (2023), available at Survey on Need for GHG Protocol Corporate Standards and Guidance Updates | Greenhouse Gas Protocol

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Support for Comparability via Clarification in the Corporate Standard

We believe it is important to have emissions inventories that are consistent, reliable, useful, and comparable across sectors and firms of all sizes to enable progress towards a lower carbon future and the global net zero ambitions of the Paris Agreement. The GHG Protocol has helped set efforts to standardize the classifications, assumptions, and procedures used in emissions accounting and reporting to provide clear, consistent, and comparable information on organizations' GHG emissions inventories, and we welcome updates to the GHG Protocol that further transparent and objective measurement, reporting, and verification. To further standardize accounting and reporting practices and ensure equity for all sectors, we believe it would be prudent for the WRI/WBCSD to consider incorporating additional core principles, guiding principles, and due process procedures from the Generally Accepted Accounting Principles of the United States of America (GAAP).[3] For example, core principles of GAAP include sincerity and prudence, which require accounting to be fact-based and unbiased and due process standards include encouraging broad public participation in the standards-setting process.[4]

Reporting Boundaries: In furtherance of standardization, we believe the Corporate Standard should further clarify organizational and operational boundaries. Specifically, reporting guidance for Scope 1 inventories should be clarified to consider and clarify reporting of emissions associated with assets to which the reporting company has long-term financial exposure whether that be in production of goods or acquisition or provision of services. Under current guidance, companies sometimes report a particular source category as a Scope 3 emissions source and other companies report the same source category under the same contractual and financial arrangement as a Scope 1 emissions source. Additional guidance is also needed on how to report emissions for products sold by the reporting company and produced by another company.

Performance-based Emissions Reporting: We believe there is an opportunity to advance comparability by inclusion of and a recommendation for performance-based reporting. Under performance-based reporting, emissions are divided by production to establish a normalized performance measure. Performance-based reporting normalizes emissions between two firms and is commonly used in regulatory GHG reduction programs such as the California Cap and Trade, among others. Performance-based reporting contrasts with the current Corporate Standard's incorporation of historical comparisons (base year reporting) whereby emissions from a specific reporting period are compared to those in a previous reporting period. Historical reporting can be useful to understand the evolution of emissions at an asset or facility level; however, it does not provide useful information in aggregation or help in comparison between two firms or two facilities. In addition, trying to maintain historical comparison books on a consolidated basis (base year reporting) does not provide meaningful data for comparisons and diverts resources from more useful activities.

Biogenic and Land Use Emissions: A complete emissions inventory of all activities, including emissions from biogenic sources and from land use changes, is important to manage and optimize reduction pathways. Therefore, Chevron recommends updating the GHG Protocol to require accounting and reporting of biogenic emissions across all standards and guidance documents in alignment with operational boundaries (e.g., Scope 1, Scope 2, and Scope 3), as currently recommended by the *Land Sector and Removals Guidance.*[5] Similarly, the GHG Protocol can enable consistency and comparability by standardizing land use change accounting requirements based on consistent accounting principles, transparent models, and verifiable assumptions. WRI/WBCSD should also clarify in the GHG Protocol that activities or services that transfer emissions to the atmosphere from other carbon stocks (e.g., deforestation, farming practices) should be accounted for and reported under Scope 1. Similarly, the GHG Protocol should make clear that, due to land use changes as well as technological solutions such as

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[3] Generally Accepted Accounting Principles in the United States, guide sheet available https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/GAAP_Guide_Sheet_508.pdf

[4] Guiding Principles and Due Process procedures available Rules of Procedure-August 10, 2021 (fasb.org)

[5] GHG Protocol Land Sector and Removals Guidance (Draft for Pilot Testing and Review, September 2022), available at Land Sector and Removals Guidance | Greenhouse Gas Protocol (ghgprotocol.org)

direct air capture, GHG inventories can be positive or negative. Lastly, biogenic emissions guidance when reporting product carbon intensities should also be clarified. Given that biogenic emissions are considered out of scope and are reported separately in corporate inventories, we recommend that they also be reported separately for product carbon intensities.

Support for Physical and Market-based Accounting

Market-based mechanisms are important resources for enabling a lower carbon future and achieving emissions reductions in a more efficient manner.[6] Chevron supports the use of market-based mechanisms to encourage and incentivize efficient emissions reductions. GHGs are global in nature, meaning an emission or emission reduction in any part of the world is of equivalent value, and thus incentivizing emissions reductions to occur in the most efficient manner possible can help deliver on the goals of the Paris Agreement. In pursuit of enabling broad participation in emissions reductions, location-based considerations should not apply for market-based accounting noting that a national corresponding adjustment should be considered when crossing national boundaries. There are many reasons that physical activity may not be contained within the same geographical location as the contracting party, yet a lower carbon activity should be encouraged. For example, (1) products may be comingled in storage or transport which makes tracing differentiated products impossible (common in energy products), (2) local markets for an activity may not exist, and shipping of the products – when and if possible – may increase overall carbon emissions; (3) those with desire to fund reductions may be geographically separated from the resource.

Accounting standards that appropriately incorporate market-based instruments[7] play a valuable role in enabling a lower carbon future. Market-based accounting is fundamental to encouraging low-carbon investment at scale. Accordingly, market-based accounting should be applicable to all operational boundaries (i.e., Scope 1 and Scope 3). Furthermore, Chevron believes that GHG emissions inventories should be primarily evaluated on a market instrument-adjusted basis but should be reported for transparency on both a physical and instrument or market-adjusted basis. For example, this dual reporting approach is currently used for Scope 2 reporting via recommendation of both location-based and market-based accounting.

The GHG Protocol can play a valuable role in promoting the integrity of emissions accounting and reporting. Specifically, the GHG Protocol should ensure that physical and market accounting and reporting standards avoid double counting within corporate inventories and require transparent disclosures. For example, under the Scope 2 Standard, the GHG Protocol currently prevents double counting by requiring the use of residual emission factors under the market-based approach and promotes transparent disclosure by recommending both physical (location) and instrument-adjusted (market-based) inventory reporting. The GHG Protocol should expand accounting and reporting requirements to ensure that emissions and reductions transferred using market-based mechanisms or pairing of emissions and removal inventories are only accounted for once. For example, the GHG Protocol should clarify that emissions reductions sold to a third party cannot also be counted in the selling entity's inventory and require corresponding adjustments on corporate inventories. Furthermore, the GHG Protocol should provide guidance that harmonizes market-based regulatory and voluntary reporting for instruments that share the same temporal boundary, sometimes also referred to as vintage, and recognizing that there may be a one-year allowable matching period to be able to take into account issuance versus generation time frames. Other expert groups, such as the International Emissions Trading Association, can be helpful in developing this harmonized guidance.[8]

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[6] International Emissions Trading Association (IETA), University of Maryland, and Carbon-Pricing Leadership Coalition (CPLC), The economic potential of Article 6 of the Paris Agreement and implementation challenges, September 2019, ieta.org/resources/International_WG/Article6/CLPC_A6%20report_no%20 crops.pdf.
[7] As identified in the "Market-based Accounting Approaches Survey Memo" by the Greenhouse Gas Protocol (2022), available at Market-based accounting Survey Memo.pdf (ghgprotocol.org)
[8] https://www.ieta.org/

Enabling Decision-useful Data via Value Chain (Scope 3) Accounting

The GHG Protocol should strive to enable companies to identify and track emissions and reductions across value chains. Chevron supports lifecycle analysis and believes that performance-based lifecycle analysis provides a valuable tool to identify and understand opportunities to balance reliability, affordability, and environmental performance. We support the standardization of data-driven methodologies to track and communicate emissions performance based on primary data across value chains. This type of tracking product carbon intensity through a value chain is also sometimes referred to as carbon footprinting, product lifecycle emissions, value chain accounting, embodied carbon, and Scope 3 emissions.

Both the Corporate Value Chain (Scope 3) Standard and the Product Life Cycle Standard should be refocused to facilitate value-chain emissions accounting, grounded in the well-established and generally accepted principles for inventory accounting, and specifically recommend incorporation of supplier-specific primary emissions data and the aim to provide customers with product-specific primary data covering emissions up to the point of sale. Accurate reporting of Scope 1 emissions and consistent incorporation into product-specific primary data is foundational for full and accurate accounting and reporting of value chain emissions. However, the current guidance typically results in the use of industry or regional average data, rather than the specific emissions data attributable to specific suppliers, distributors, and customers. Use of average values rather than actual data undermines the integrity of Scope 3 accounting and does not provide incentives for decarbonization, as current guidance does not provide for quantification of emission changes. By refocusing Scope 3 guidance on value chain emissions reporting, double counting within Scope 3 categories can also be avoided. By promoting the standardization of processes, procedures, and assumptions for performance-based emissions accounting and reporting, the GHG Protocol can enable incorporation of GHG emissions in decision making such as product design, purchasing, and sourcing decisions.

If the GHG Protocol were to have standardized guidance around performance-based emission accounting and reporting, it would not only enable more accurate, comparable, and decision-useful data exchange, it would also enable a consistent and straightforward approach to quantification and reporting of reductions that occur outside of the traditional operational boundaries, including the quantification of reductions sometimes referred to as enabled reductions or avoided emissions. Enabled emissions accounting should be extensible and repeatable across all sectors and refrain from screening criteria that limits broad applicability.

We hope our comments are helpful to WRI and WBCSD as they seek to update the GHG Protocol. We welcome the opportunity to provide further support and input into the standards update.

Sincerely,

Balalji Krishnamurthy