

# Market-based Accounting for Clean Fuels

## Initiative Proposal | October 2023

### 1. Problem Statement

Markets for clean fuels including biomethane, sustainable aviation fuel (SAF), and green hydrogen are evolving from ideas to realities. In most cases, market demand is being driven by a desire to reduce a company's or product's direct carbon emissions, particularly where electrification is not feasible. In the corporate disclosure space, however, there has been significant doubt cast on the validity of market-based accounting for direct (scope 1) emissions. Recently, the Greenhouse Gas Protocol published an [Interim Update on Accounting for Biomethane Certificates](#) that provided a history of the debate around this issue and its position that "there is no definitive guidance on this question under the GHG Protocol" and that "...companies purchasing certificates may wish to consult with their auditors and consider rules provided by relevant target-setting programs or applicable regulatory schemes in their jurisdiction(s) on how to report these purchases in their reports, while ensuring full transparency and following all GHG accounting and reporting principles." Although the GHG Protocol has indicated its intention to address this question in the future, organizations working to meet aggressive climate goals may not be able to wait.

This CEAP initiative will answer the question:

- *What are credible market-based rules to account for the direct emissions associated with the use of clean fuels?*

### 2. Proposal Summary

Utilizing the GHG Protocol's Scope 2 Guidance as a model, CEAP will define a series of globally applicable market-based quality criteria for clean fuels that are sufficiently rigorous to support credible use claims as well as market-based direct emissions calculation guidance consistent with the principles and existing attributional accounting framework of the GHG Protocol Corporate Standard. Initial background research will be conducted across clean fuels, markets, and relevant regulations to inform the development of quality criteria and market-boundary definitions for specified procurement of clean fuels. At this stage, the working group may elect to narrow the scope to specific fuels or geographic regions if sufficient supporting information and stakeholder engagement is not available.

Anticipated outcomes include: (1) a series of background materials on existing considerations for different fuels, relevant regulatory efforts, and other unique characteristics of different regional markets; (2) consensus recommendations for relevant aspects of attributional emissions accounting including certificate quality criteria, market boundaries, and inventory reporting format; and (3) documentation that can be used by verifiers to audit corporate inventories that include emissions associated with clean fuel use.

### 3. Summary Table

This table will further define the initiative along specific parameters and criteria and inform the working group stage.

Scope limitations:	<ul style="list-style-type: none"> <li>▪ Attributional accounting for direct combustion emissions, excluding lifecycle accounting frameworks and indirect emissions associated with upstream or downstream fuel use.</li> <li>▪ Clean fuel focused, although criteria may be relevant for all market-based accounting for fuel combustion.</li> <li>▪ Only considers how to implement market-based accounting, will not address whether or not it should be recognized in an updated standard.</li> <li>▪ Will not propose eligibility criteria based on desired fuel attributes or procurement mechanisms.</li> </ul>
Potential outcomes:	<ul style="list-style-type: none"> <li>▪ Support corporate disclosure and verification of direct emissions associated with purchased clean fuels and associated attribute certificates.</li> <li>▪ Identify important considerations that may inform the GHG Protocol Corporate Standard update process going forward.</li> <li>▪ Help grow voluntary markets and demand for clean fuels in the near term.</li> </ul>
Reasons for urgency:	<ul style="list-style-type: none"> <li>▪ Current lack of accounting guidance limits ability of companies to address critical direct emission sources that cannot be electrified.</li> <li>▪ Immediate barrier to market participants.</li> </ul>
Anticipated deliverable(s):	<ul style="list-style-type: none"> <li>▪ Background materials addressing different clean fuels, relevant regulations, and regional markets considerations.</li> <li>▪ Direct emissions accounting recommendations including certificate quality criteria, market boundaries, and inventory reporting format.</li> <li>▪ A resource to support verification of inventory data.</li> </ul>
Other relevant initiatives:	<ul style="list-style-type: none"> <li>▪ GHG Protocol Corporate Standard Update</li> <li>▪ Clean Fuels Alliance America streamlined SAF accounting guidance</li> </ul>
Relation to existing CEAP initiatives:	<ul style="list-style-type: none"> <li>▪ Not applicable</li> </ul>
Available resources:	<ul style="list-style-type: none"> <li>▪ The <a href="#">GHG Protocol Corporate Standard</a>, resources that contributed to the <a href="#">GHG Protocol's Land Sector Guidance</a> development process, and the original Scope 2 Guidance on renewable fuels.</li> <li>▪ Feedback submitted to the GHG Protocol's <a href="#">Market-based Accounting Survey</a>.</li> <li>▪ UC Irvine Clean Energy Institute's <a href="#">Environmental Attribute Credits: Analysis of Program Design Features and Impacts</a> White Paper.</li> <li>▪ <a href="#">The European Sustainability Reporting Standard, Annex 1</a></li> <li>▪ <a href="#">ISO Chain of Custody - Book and Claim - requirements and guidelines</a> (under development)</li> <li>▪ <a href="#">World Economic Forum Sustainable Aviation Fuel Certificate (SAFc) Emissions Accounting and Reporting Guidelines</a></li> </ul>

Potential challenges:	<ul style="list-style-type: none"> <li>▪ Interim guidance may not provide sufficient risk avoidance to result in desired market impacts in light of ongoing GHG Protocol Standard Update.</li> <li>▪ Scope may be too broad to accomplish quickly and information about international markets may not be readily available.</li> </ul>
Key working group stakeholders:	<ul style="list-style-type: none"> <li>▪ Clean fuel producers and clean fuel focused programs and industry associations</li> <li>▪ Corporates representing transportation sectors and those with industrial operations</li> <li>▪ Environmental organizations</li> <li>▪ GHG accounting experts</li> <li>▪ Regulators implementing corporate disclosure mandates</li> <li>▪ International fuel market experts</li> </ul>