

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549

Re: File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Secretary Countryman,

3Degrees Group Inc. (3Degrees) writes in support of File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors. We appreciate the opportunity to provide comments on the proposed rule and share market insights to help strengthen and enhance the final rule. 3Degrees supports the Commission's work to bring consistency, comparability, and reliability to how companies disclose climate-related risk information and help inform investors on associated risks.

3Degrees is a leading provider of comprehensive clean energy and carbon reduction services that enable organizations and individuals to transition toward a low-carbon economy. 3Degrees was founded on the premise that businesses must serve in the interest of all stakeholders and that they play a central role in solving the climate crisis. We work with hundreds of companies and institutional customers across various sectors on developing and implementing GHG emission reduction strategies across Scopes 1, 2 & 3--helping organizations around the world achieve decarbonization goals while also building a sustainable and equitable future for all. Additionally, 3Degrees serves as a carbon credit project developer and has worked closely with more than 50 projects to leverage carbon markets to finance emissions reductions.

Based on our experience advising companies on achieving and disclosing renewable energy and carbon reduction goals, 3Degrees provides the following comments to highlight elements of the proposed rule we support as well as feedback on provisions that will help SEC enhance the final rule.

1- 3Degrees recommends that the SEC final rule require distinct use of location- and market-based accounting for scope 2 emissions and follow

the Greenhouse Gas Protocol Guidance on reporting, including dual reporting.

In the draft rule, the SEC indicates companies could use the market-based method ***or*** the location-based method for calculating scope 2 emissions for purchased electricity. The draft rule then suggests companies could use “either of these methods, both methods, a combination, or another method as long as it identifies the method used and its source”.¹ 3Degrees does not support this element of the draft rule as it implies that mixing and matching greenhouse gas accounting methods is appropriate, which conflicts with Greenhouse Gas (GHG) Protocol Scope 2 Guidance.

Most companies rely on the GHG Protocol Scope 2 Guidance as a framework to outline the accounting and reporting requirements necessary when conducting an inventory assessment for scope 2 emissions. The GHG Protocol Scope 2 Guidance explicitly states that the location-based and market-based methods are two distinct methods for scope 2 accounting. The location-based method reflects average emissions intensity of grids where energy consumption occurs. Whereas, the market-based method reflects emissions from electricity that companies have purposefully chosen and derives emissions factors from contractual instruments, such as energy attribute certificates (also referred to as RECs), direct PPAs, and residual mix data. Both are useful for different purposes and together the two methods help companies provide a fuller documentation and assessment of risks, opportunities, and changes to emissions from electricity supply over time. The GHG Protocol Scope 2 Guidance also requires companies with any operations in markets providing products or supplier-specific data in the form of contractual instruments to report scope 2 emissions using both methods—commonly referred to as “dual-reporting”.² The US is one of these markets with a range of contractual instruments used to support voluntary and RPS markets, including unbundled RECs, PPAs, and specified electricity offerings. In markets where no contractual instruments exist, the market- and location-based method result in the same calculated emissions.

The GHG Protocol requires dual reporting to ensure a comprehensive view of the options available to reduce emissions, allow comparability across operations, and

¹ Proposed Draft Rule

² [GHG Protocol Scope 2 Guidance](#), pages 7-8

prevent double-counting between companies relying on different methods for goal-setting. Dual-reporting allows companies to differentiate between the impacts of their individual purchasing decisions, the overall GHG intensity of their local grid, and emissions reductions resulting from changes in operations. Additionally, the GHG Protocol's framework results in comparable data across companies and reduces double counting between scope 2 inventories when using the same methods.³ Because only the company in possession of the contractual instruments can report renewable energy, there should be no double-counting across all inventories calculated using the market-based method. Not only does the GHG Protocol's dual reporting requirement improve the accuracy of reported results, but by instructing companies to follow the GHG Protocol Guidance for dual reporting, investors would be able to better assess and evaluate climate-related risks by relying on consistent and transparent accounting methods. 3Degrees recommends the SEC align with the GHG Protocol's reporting framework that differentiates between market-based and location-based accounting frameworks, and requires that companies report using **both**.

- 2- In the SEC's proposed provision to disclose carbon offsets or renewable energy credits if used, 3Degrees recommends that the SEC not conflate the use of RECs and carbon offsets and that it discuss each instrument separately. Additionally, the SEC final rule should clarify the intent and use of requiring REC disclosure, and revise the requirement in line with the objective of this disclosure.**

RECs and carbon offsets are two distinct instruments that represent different environmental attributes and are applied differently in corporate GHG inventories. RECs are used to allocate emissions within a single system and represent the direct emissions, and other environmental attributes, associated with a MWh of renewable energy delivered to the grid. RECs allow a company to report the consumption of renewable energy generation and the associated emissions (i.e. zero for renewables like wind and solar). An allocation approach is necessary when a single system produces multiple outputs (i.e. products) that are purchased or used by distinct entities, and where it is not possible to track a product from generation or creation to consumption or use (i.e. the inputs become intermingled). The electricity system is one such system--it is possible to calculate emissions at the point of electricity generation,

³ [GHG Protocol Scope 2 Guidance, Chapter 3: Accounting and Reporting Principles](#)

but once the electricity is delivered to the grid, it is not possible to differentiate electricity from specific generators delivered to specific end uses.

When allocation of emissions within a system is required, there are two primary approaches within GHG accounting inventories. One approach for allocation is to quantify the emissions associated with all inputs to the system and then divide the total by the number of outputs to arrive at an average emissions factor. The location-based method is an average allocation approach where the total emissions of electricity delivered to the grid during a specified time period are divided by total electricity sold during that time to get an emissions factor for each MWh. As noted above, this provides important information on the system as a whole but does not reflect cause and effect between inputs and outputs of the system.

For this reason, an alternative allocation approach is typically pursued that assigns emissions to output based on the causal relationship between production and demand. Since tracking the input through the system is not possible, a separate tracking system or instrument is created to administratively assign products with certain characteristics (e.g. renewable MWh) to the point of consumption or purchase. Limits are put onto the system to ensure that the market instruments align with the physical constraints of the system. The market-based method under scope 2 is an allocation approach that uses RECs to track renewable electricity from generation to consumption. A REC represents the direct emissions from the renewable energy generation and is used by a company to substantiate the emissions it reports associated with its purchased electricity.

A carbon offset, on the other hand, is a GHG instrument that represents 1 metric ton (MT) of CO₂e reduced, avoided, or removed. Carbon offsets are a fundamentally different type of GHG accounting instrument that rely on project-level GHG accounting methodologies. With project-level accounting, the global emissions benefit of a specific activity is quantified using a consequential or intervention accounting approach. Carbon offsets are issued according to scientifically supported methodologies and verified against internationally recognized standards. They are required to meet specific criteria, including the criteria of additionality--that the

project represents a change in behavior that resulted in a global emissions reduction (or removal) compared to business-as-usual.

The resulting carbon credits are typically used by companies to address currently unabated emissions, often on a volumetric basis (i.e. purchasing a carbon credit for each MT of emissions reported). Since carbon emissions and their impacts are global in nature, avoiding emissions in one area is as beneficial as reducing emissions elsewhere from a climate change perspective. However, carbon offsets are always reported alongside a company's carbon inventory, as the SEC has proposed, to ensure that a company is not using carbon offsets to conceal its gross emissions.

Considering RECs and carbon offsets represent different impacts, criteria for qualification, and use in GHG inventories, 3Degrees strongly recommends that the SEC final rule discusses each instrument separately.⁴

3Degrees also recommends that the SEC consider the intent of requiring companies to disclose additional information related to RECs, specifically addressing how this information might be useful to investor assessments and decisions. As explained above, if a company is required to follow the GHG Protocol Scope 2 Guidance on dual reporting, under the market-based method a company would disclose the use of any energy attribute certificates (i.e. RECs) in the GHG inventory. There are a range of methods companies use to purchase renewable energy (all must be substantiated by RECs), including unbundled RECs, PPAs, and utility green tariff programs to highlight a few.⁵ These various categories of procurement are an imprecise proxy measure for the underlying intent and effectiveness of climate mitigation methods deployed by a company. They are also not well defined, and some methods of procurement do not cleanly fit into one or the other. For example, a virtual PPA is a financial agreement where a company receives the RECs generated from a project but not the electricity—it's not clear if this should be considered an unbundled REC purchase or a PPA. 3Degrees believes investors would be better served by a description of how company actions within any category of renewable energy purchase help reduce GHG emissions and hence company risk.

⁴ [EPA Offsets and RECs: What's the Difference?](#)

⁵ [NREL's Status and Trends in the Voluntary Market](#)

Lastly, 3Degrees recommends that the SEC final rule use the term environmental attribute certificate (EAC) in lieu of RECs to capture a broader range of market-based instruments companies can use to meet their climate goals.

- 3- **On carbon offsets, 3Degrees is supportive of the final rule requiring that companies exclude carbon offsets when disclosing scope 1, 2, and 3 emissions. We are also supportive of the final rule requiring disclosure on the role of carbon offsets in a company's strategy.**

Reporting under the GHG Protocol requires that companies exclude any use of carbon offsets in disclosing scope 1, scope 2, and scope 3 emissions. Companies must report their gross emissions and then separately report their carbon offset purchases. We are supportive of SEC rules aligning with this requirement.

We are also supportive of the requirement to disclose the role that offsets play in a company's overall climate strategy. Companies leverage offsets for many different purposes, for example: to spur innovation in needed carbon removals technologies; to drive emissions reductions in the sector in which they operate; to drive emissions reductions in the geographies or sectors of their supply chains when they are not able to directly influence their supply chains; and many other reasons. We believe it is valuable for investors to understand how the carbon offset purchases affect the company's risk profile and contribute to the company's overall climate strategy.

3Degrees supports the SEC moving forward with a broad definition of the criteria for carbon offsets. Offsets must be independently verified, issued in a third-party managed registry, and must meet the criteria of being: real, measurable, permanent, additional, independently verified, and unique. We do recommend that SEC revise the definition of a carbon offset to state that it is "a GHG instrument that represents 1 metric ton (MT) of CO₂e reduced, avoided, or removed".

- 4- **3Degrees supports the SEC proposal's provision to require disclosure for scope 3 GHG emissions and intensity but recommends modifications to the materiality provision as well as solutions to support data access and quality challenges associated with scope 3 emissions.**

Many companies are broadening their efforts and strategies to address their supply chain emissions (scope 3). A recent RE100 report highlighted that 44% of responding companies were engaging with their suppliers on their clean energy strategies.⁶ Additionally, companies with a Science Based Target must set a scope 3 target if a company's relevant scope 3 emissions are 40% or more of their total scope 1, 2, and 3 emissions.⁷ 3Degrees firmly supports the proposal's provision to require disclosure for scope 3 emissions to better assess climate-related risks and to better understand a company's effort to address the GHG emissions related to scope 3 emissions.

However, 3Degrees shares the concern of other commenters that the additional disclosure trigger related to target-setting—that is, if a company has set a GHG emissions reduction target or goal that includes its scope 3 emissions—will have negative effects and create a disincentive for companies to set scope 3 targets. Companies face many challenges when trying to measure and address their scope 3 emissions, including limited access to quality data, time consuming engagement with supply chain partners, and significant investments (both time and money) in bottom-up inventories. 3Degrees believes this disclosure trigger could be an additional barrier and discourage companies from setting a scope 3 reduction target as it will automatically open a company to additional reporting requirements.

3Degrees supports a disclosure trigger based solely on materiality and recommends the final rule include guidance on a materiality test an issuer would perform to assess if Scope 3 disclosure is material. For example, materiality can be determined by a stated % threshold of total emissions, calculated according to the GHG Protocol and including the minimum boundaries listed in [Table 5.4](#) of the Corporate Value Chain Standard. Additionally, given some of the challenges with data accuracy, timeliness, and accessibility with scope 3 inventories, 3Degrees recommends the SEC final rule consider a framework for scope 3 disclosure that is comprehensive but infrequent. For example, the SEC final rule could direct a company to disclose scope 3 emissions every 5 years.

Lastly, 3Degrees recommends the SEC final rule make several revisions to provide investors with decision-useful and easy to digest information on scope 3 emissions.

⁶ [RE100 Progress and Insights Annual Report 2019; page 10](#)

⁷ [SBTi Criteria and Recommendations, page 5](#)

First, we recommend that the SEC final rule clarify that a screening exercise is sufficient for scope 3 emission disclosure. Scope 3 screening tools allow organizations to input information about their operations and calculate a comprehensive estimate of emissions across scope 3 categories.⁸ A bottoms-up inventory approach, on the other hand, requires retrieving supplier-specific emissions data for sources of emissions across a company's value chain. While companies may choose to move towards sourcing primary data from their supply chain to pursue emissions reductions strategies, a screening tool provides sufficient information to understand the magnitude of scope 3 emissions. A scope 3 emission screen would provide investors with details related to a company's GHG emission footprint and intensity to inform and expose any climate-related risks.

3Degrees also recommends that the SEC final rule simplify the GHG accounting framework and not require companies to report by scope 3 categories of emissions. 3Degrees recommends the SEC instead require companies to report total GHG emissions and intensity as upstream and downstream groupings.

5- 3Degrees supports the SEC's proposal provision requiring qualified filers to include an attestation report covering the disclosure of its scope 1 and scope 2 GHG emissions as it enhances the reliability of disclosures.

Many companies already voluntarily report and disclose GHG emissions data through CDP. As part of the CDP disclosure process, companies are required to verify submissions through a third party verifier with recognized verification standards. 3Degrees recommends that the SEC final rule consider CDP's criteria for third party verification standards when developing minimum standards for acceptable attestation frameworks and minimum qualifications for attestation service providers.

6- 3Degrees supports the SEC's targets and goals provision, which would require disclosure if the company has set GHG reduction targets or goals or any other climate-related target or goal.

The number of companies with climate-related goals or targets is rapidly growing. There are a range of commitments that companies can make, such as GHG reduction

⁸ [Scope 3 Evaluator](#)

goals, science-based targets, or net zero commitments to highlight a few. By requiring the disclosure of any GHG reduction targets or goals, it indicates a company has invested in the development of clear and comprehensive climate goals and a framework for prioritizing actions.⁹

3Degrees supports the SEC's reliance on the Task Force on Climate-Related Financial Disclosure (TCFD) framework to inform the SEC proposed rule. TCFD is widely adopted in the community and this ensures consistency and alignment between the disclosures. To further align with TCFD, 3Degrees supports the disclosure of any scenario analysis to help assess the impact of climate-related risks on a business. Additionally, we recommend that the SEC provide clear guidance on specific scenarios to support comparability across company disclosures.

3Degrees thanks the SEC for the opportunity to provide feedback on File No. S7-10-22: The Enhancement and Standardization of Climate-Related Disclosures for Investors. We are hopeful that by ensuring consistent, comparable, and reliable information for disclosures, investors will be provided with decision-useful information and better able to assess climate-related risk.

Sincerely,

/s/ Maya Kelty

Maya Kelty
Director, Regulatory Affairs
3Degrees Group Inc.

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⁹ [Investor Guide to Corporate Greenhouse Gas Commitments](#)