Supplemental Comment from

Nareit® (www.reit.com) and

The Real Estate Roundtable (www.rer.org) on the

Draft "Building Sector Science Based Target Setting Guidance" (May 15, 2023)

Released by the Science Based Targets Initiative (SBTi)

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Points of contact:

Duane J. Desiderio	Jessica Long
Senior VP and Counsel	Senior VP, Environmental Stewardship & Sustainability
The Real Estate Roundtable	Nareit®
ddesiderio@rer.org	jlong@nareit.com

SUPPLEMENTAL COMMENT

Nareit® and The Real Estate Roundtable ("Nareit/RER") appreciate SBTi's consideration of our "Primary Comments" dated July 14, 2023, regarding SBTi's draft "Building Sector Science Based Target Setting Guidance" (the "draft Guidance"). Thank you for taking the time to meet with us and discuss the comments and we look forward to continuing ongoing engagement on the matter. In the spirit of collaboration and transparency we would like to supplement our Primary Comments with the below information which we believe should be considered as it directly relates to one of our key concerns.

The Nareit/RER Primary Comments emphasized disagreement with the directive in SBTi's draft Guidance that real estate owners, developers, and financial institutions "shall ***only use the location-based accounting approach***" to calculate and track emissions. In this regard, we explained the draft Guidance "removes the ability for building owners to meet their own and their tenants' power needs with clean, renewable energy, which is essential to achieving Paris-aligned carbon emission reductions in the near-term." We further wrote that eliminating market-based methods as a blanket rule would unfairly single-out the building sector and recommended that: "SBTi should instead continue the long-standing practice, endorsed by the GHG Protocol, CRREM-affiliated NGOs, governmental bodies, and other corporate reporting programs, for companies to rely on ***both*** 'location-based' ***and*** 'market-based' emissions accounting."

Nareit/RER provide this supplement because recent comments SBTi submitted to the GHG Protocol contradict the position in the draft Guidance. Last spring, the GHG Protocol invited stakeholder input through a survey regarding the Protocol's Scope 2 Guidance. The survey period was open until March 14, 2023 – about two months before SBTi released its own draft Guidance for building sector feedback. SBTi's "Scope 2 Comment" to the GHG Protocol is available online here.

In its Scope 2 Comment, SBTi does ***not*** advocate that the GHG Protocol should abandon entirely market-based accounting. Rather, SBTi stated that greater quality controls and safeguards are necessary to support market-based emissions targets. SBTi wrote to the GHG Protocol that "attribute certificates" – like RECs – should account for renewable energy procurements in a manner that "enables credible decarbonization claims when used in conjunction with other contractual instruments for the sale and purchase of electricity (e.g., PPAs) …."[1] SBTi's stance to the GHG Protocol tracks Nareit/RER's position to SBTi. Our Primary Comments on the draft Guidance similarly recommended that SBTi should:

> [S]upport programs that … improv[e] tracking and certification of RECs. For example, US-EPA recently announced it will use *Inflation Reduction Act* funds from Congress to improve Portfolio Manager with more accurate REC tracking functions to prevent double-counting.[2]

[1] SBTi Scope 2 Comment to GHG Protocol survey question 3.
[2] Primary Comments at note 10 and accompanying text.

SBTi's Scope 2 Comment to the GHG Protocol is replete with reasoning that supports *improved* market-based accounting methods. Illustrative statements from SBTi include:

- "***A tighter approach on market-based accounting is critical*** to deter and disincentivize companies from using attribute certificates to claim zero emissions."[3]

- "Addressing the challenges around Scope 2 accounting requires careful balancing of two important goals. ***It is essential to retain and strengthen the incentive for companies to shift their energy supply from fossil to clean sources by giving companies the ability to reflect this in their GHG inventory.*** At the same time, it is important to ensure that less credible instruments such as unbundled energy attribute certificates are not used to make clean energy or climate-related claims which compromise the legitimacy of corporate GHG inventories and claims made on this basis."[4]

- "SBTi proposes that GHGP no longer accept unbundled certificates under the Scope 2 guidance, irrespective of the actual source of electricity supply. ***Instead, the SBTi strongly endorses a supplier-specific emissions accounting approach in which a Scope 2 accounting hierarchy serves as a replacement for the current dual accounting approach.*** Through this method, companies would be required to report the specific emissions intensity of the actual source from which they are physically and contractually procuring electricity.[5]

- "In cases in which electricity is delivered through a grid, ***tracking instruments from the contracted source would continue to play an important role in the chain of custody of the purchased electricity,*** including for verification purposes and to support potential claims associated with the use of clean electricity."[6]

- "The proposed changes are in line with the GHG Protocol's existing accounting and reporting principles***. As emissions reporting moves towards using supplier-specific emissions factors, the integrity, reliability, and quality of the data will be improved, paving the way for more realistic emission reductions*** and the ability to more accurately monitor and measure additional renewable energy generation."[7]

- "In order to track emission reductions, companies need to obtain emissions factor data from their suppliers that can be used to build a more accurate inventory figure. Narrowing the scope 2 instruments available would be imperative in paving the way for actual emissions reductions that garner a much higher level of credibility than unbundled energy attributes. ***The changes proposed also align with the latest climate science and global climate goals (i.e., keeping global warming below 1.5°C)."***[8]

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[3] SBTi Scope 2 Comment, response to GHG Protocol survey question 3.
[4] *Id.*, response to Q4.
[5] *Id.*
[6] *Id.*
[7] *Id.*, response to Q5.A
[8] *Id.*, response to Q5.B.

- "Anticipating these challenges with the data accessibility, it is suggested to implement the proposed supplier-specific approach using the aforementioned hierarchy, but with some provisions for companies that have difficulty obtaining the necessary information. For instance, even if the most specific emission factors are required in almost all cases***, a policy could be developed to permit usage of less-specific emission factors such as regional and national power generation emission data when, for a credible reason, a more specific emission factor is not available."***[9]

- "[E]liminating weaker market-based instruments such as attribute certificates in favor of moving towards a supplier-specific emissions accounting approach would increase the representativeness of corporate scope 2 inventories by better reflecting the actual source of the electricity procurement***.*** It should be noted that some ***proposed disclosure regulations (such as the SEC's climate risk disclosure rule) currently allow for companies to use all types of RECs. It is therefore important for GHGP to define which market-based instruments promote the greatest reporting accuracy and are most reflective of a company's emissions impact."***[10]

- ***"We have found in our validation process that companies which have supplier-specific emissions data available for scope 2 are able to more credibly monitor and report progress toward meeting reduction targets*** while remaining cognizant of the actual emissions intensity of the grid where electricity is being sourced."[11]

As Nareit/RER stated in our Primary Comments, our goal is to work with SBTi and its partner organizations. "We aim for a constructive dialogue so that SBTi can continue to provide a valued resource and building owners are not forced to look elsewhere for other target-setting strategies that align with climate science." We believe our industry would be much more receptive to SBTi's proposed building sector-specific methods if it contained sentiments excerpted above from SBTi's Scope 2 Comments (from March).

We look forward to providing continued input on the importance of retaining opportunities for real estate companies to set science-based targets based on market-based accounting, along with other issues raised in Nareit/RER's Primary Comments.

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For more information please contact:

Duane J. Desiderio
Senior VP and Counsel
The Real Estate Roundtable
ddesiderio@rer.org

Jessica Long
Senior VP, Environmental Stewardship & Sustainability
Nareit®
jlong@nareit.com

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[9] *Id.*, response to Q6.
[10] *Id.*, response to Q7.
[11] *Id.*, response to Q8.