



Comments to the United States Environmental Protection Agency on the Proposed Rule for Mandatory Reporting of Greenhouse Gases

June 8, 2009

Docket ID No. EPA-HQ-OAR-2008-0508

I. Background

The World Resources Institute (WRI) has extensive experience in greenhouse gas emissions accounting and reporting through its work on the Greenhouse Gas Protocol (GHG Protocol). The GHG Protocol, a multi-stakeholder process convened by WRI and the World Business Council on Sustainable Development since 1998, has developed international standards on greenhouse gas accounting and reporting and provides the most widely used greenhouse gas accounting standard around the world. The GHG Protocol provides the framework for government programs and corporate greenhouse gas inventories worldwide. WRI has also worked extensively on the development of voluntary GHG registries, such as the California Climate Action Registry and the Climate Registry; has been engaged with the U.S. Congress to develop federal mandatory GHG reporting legislation; and has worked extensively with several states and the U.S. Congress on technical aspects of climate change policy over the last several years.

II. General Comments

WRI applauds EPA for developing this proposed rule for the mandatory reporting of greenhouse gases. With this reporting rule, EPA has taken a significant step forward in the US policy response to climate change. WRI commends EPA for developing a proposed rule that is well-designed to support current and emerging climate policy needs.

III. Specific Comments

1. Applicability Thresholds

EPA Proposal:

- Reporting is required from all facilities in specified sectors. For sources not otherwise specified, reporting is required for any facility that emits 25,000 metric tons CO₂e or more per year.

WRI Comment:

- WRI supports EPA's approach of requiring reporting from all facilities in specified sectors, regardless of emissions output in a given year.
- For sources not otherwise specified, WRI believes that that the reporting threshold should be no higher than 25,000 metric tons per year. A higher threshold would compromise future policy options by including too few sources that account for too small a share of total national emissions.
- EPA should consider phasing in a 10,000 metric ton threshold after the initial start date of the program. While EPA's analysis is compelling that the 25,000 metric ton threshold strikes the right balance between emissions coverage and the number of affected facilities, EPA should consider future policy needs that would require reporting from sources that emit between 10,000 and 25,000 metric tons CO₂e per year. In particular:

- The Waxman-Markey “American Clean Energy and Security Act of 2009” (as approved by the US House Energy and Commerce Committee in May 2009) creates a greenhouse gas registry in section 713 that requires GHG reporting from entities that emit 10,000 metric tons CO₂e or more per year, even though the cap-and-trade program established under the bill applies to entities emitting over 25,000 metric tons CO₂e per year. The bill also gives EPA the authority to lower the threshold for coverage under the cap-and-trade program to 10,000 metric tons CO₂e per year.
- The Western Climate Initiative and its member states (including California, which has developed its own reporting regulation) advocate for a reporting threshold of 10,000 metric tons of CO₂e per year.
- WRI agrees with EPA’s proposal to cover both downstream emitters and upstream emitters (e.g. fuel suppliers, industrial GHG suppliers, mobile source manufacturers), despite this resulting in double reporting. Different policies will require different types of data. Some policies will target upstream sources; other policies will target downstream sources; and certain policies (e.g. a federal cap-and-trade program) will likely target both types of sources. Collecting both upstream and downstream emissions data will ensure that all future policy options are supported by the necessary emissions data. Therefore, WRI agrees with EPA that it is necessary and appropriate to require reporting from suppliers of coal, coal-based liquid fuels, petroleum products, natural gas and NGLs, industrial GHGs, and CO₂; and manufacturers of mobile sources and engines.

2. Level of reporting

EPA Proposal:

- Reporting will be at the facility level, except that certain suppliers of fossil fuels and industrial gases and manufacturers of vehicles and engines would report at the corporate level.

WRI Comment:

- WRI supports EPA’s proposal to require reporting at the facility level, except in the specified cases.

3. Frequency of reporting

EPA Proposal:

- Reports would be submitted annually. Facilities with EGUs that are subject to the ARP would continue to report CO₂ mass emissions quarterly, as required by the ARP, in addition to providing the annual GHG emissions reports under this rule.

WRI Comment:

- EPA should consider quarterly reporting for covered sources beyond EGUs to support future policy applications. For sources likely to be subject to an emissions trading program, quarterly reporting should be required to ensure necessary transparency and liquidity. For example, the Waxman-Markey “American Clean Energy and Security Act of 2009” (as approved by the US House Energy and Commerce Committee in May 2009) requires reporting on a quarterly basis from all reporting entities beginning in 2011.
- In the preamble to the proposed rule, EPA acknowledges that “under future programs or policy initiatives, particularly if regulatory in nature (e.g., a cap-and-trade program similar to the ARP) it may be more appropriate require quarterly reporting.” EPA should consider a cap-and-trade program as one of the primary near-term policies that will use the emissions data resulting from this regulation, and therefore should require quarterly reporting from sources likely to be covered by a trading program.
- Quarterly data yield a higher level of granularity for ensuring compliance, identifying irregularities in data collection, providing necessary data to market participants, and documenting emissions trends. More frequent data would especially benefit an emissions trading program, because of the benefits to market participants of more granular data, as evidenced by the Acid Rain Program

(ARP), which collects hourly data from regulated units on a quarterly basis. For smaller sources, or sources subject to policies other than an emissions trading program, semi-annual or annual reporting may be sufficient.

- The early price volatility of the EU Emissions Trading Scheme demonstrates that for an emissions trading program to function smoothly, emissions data must be collected, reported, and published on a frequent basis to provide transparent and up-to-date information to market participants. Sixteen months of trading occurred in the EU-ETS before the first release of verified emissions data. When these data were released, the price of emissions allowances fell dramatically, as market participants first learned that allowances were over-allocated (see Figure 1). Such volatility would be mediated by the more frequent collection and dissemination of emissions data.

4. Reporting electricity consumption data (indirect emissions)

EPA Proposal:

- EPA is taking comment on, but not proposing at this time, requiring facilities and supply operations affected by the proposed rule to also report the quantity of electricity purchased.

WRI Comment:

- WRI recommends that EPA require affected facilities to report their electricity use (e.g., in MWh).
- WRI recommends that EPA also require facilities to identify their electricity supplier to enable EPA to estimate indirect GHG emissions based on: 1) reported electricity use, and 2) the emissions intensity of electricity supplied to individual facilities.
- WRI recommends that EPA also require facilities to report other forms of imported energy, including the use of purchased steam, heating and cooling.
- WRI recommends requiring the reporting of electricity use for the following reasons:
 - Electricity generation and consumption account for 34% of U.S. GHG emissions. Reporting of electricity use, while not a direct emission source, is necessary to support energy efficiency and demand-side management policies that complement and go beyond policies that regulate generators of electricity alone. GHG policies for the electricity sector must address both generation and consumption of electricity. To do so, data should be reported not only on electricity generation, but also on electricity consumption by end users.
 - Collecting electricity use data would allow EPA to track demand-side trends in electricity use at industrial or commercial facilities that would otherwise not be reported. In the industrial sector, indirect emissions of carbon dioxide from electricity use are as large as direct emissions from fuel combustion. In the commercial sector, indirect emissions from electricity use are four times greater than direct emissions from fuel combustion (see Figure 2).
 - California's mandatory GHG reporting program requires facilities to report their use of purchased electricity as well as purchased steam, heating, and cooling.
 - The UK is implementing a mandatory emissions trading scheme that applies to large users of electricity, i.e., a mandatory scheme that includes both direct and indirect emissions.
 - The rationale for requiring electricity use data to be reported is the same as the rationale for requiring reporting from upstream suppliers of fossil fuels, industrial GHGs, and mobile sources and engines: reporting direct emissions by downstream entities alone is not sufficient to meet all current and emerging GHG policy needs. Indirect emissions information is also necessary to support a broad range of policies, such as energy efficiency and demand-side management programs informed by facility-level electricity use data.
 - In a federal cap-and-trade program, indirect emissions data may not be necessary for compliance, but may be necessary to implement allowance distributions (or revenue recycling) to large consumers of electricity, such as industrial facilities in electricity-intensive sectors. Legislative cap-and-trade proposals have directed EPA to distribute allowances to energy-intensive sectors based on their combined direct and indirect

emissions, in order to mitigate the effects of expected higher energy costs. Therefore, EPA should collect data on purchased electricity, steam, heating, and cooling use, in addition to direct emissions data, in order to implement these provisions.

- Requiring electricity use to be reported is not expected to impose additional costs. Reporting would be required only of facilities already reporting under the rule. For reporting entities, the additional cost to record and report electricity use data is expected to be minimal, since this data is expected to be readily available.
- Many companies (including over half of the Global FT500) currently follow the GHG Protocol *Corporate Standard* as the basis for voluntary corporate GHG reporting, which requires reporting both scope 1 and scope 2 emissions data. These companies already collect facility level indirect emissions data as part of their current GHG reporting.
- Since the use of purchased electricity, steam, heating and cooling represent “indirect” rather than “direct” emissions sources, EPA must account for these data separately from direct emissions to avoid double counting. To do so, EPA could collect energy use data in kilowatt-hours or other physical or energy units without converting data into estimated emissions. Using this approach, the only reported *emissions* data are direct emissions. EPA could also use the accounting framework developed by the WRI/WBCSD GHG Protocol *Corporate Accounting and Reporting Standard* by categorizing direct emissions as “scope 1” emissions and categorizing indirect emissions associated with the use of purchased electricity, steam, heating and cooling as “scope 2” emissions. The GHG Protocol emissions accounting framework is widely accepted by industry and government programs (e.g. EPA Climate Leaders) in the US and around the world.

5. De minimis exclusions

EPA Proposal:

- There is no need to exclude a percentage of emissions from reporting under this proposal.

WRI Comment:

- WRI agrees with EPA’s proposal not to allow the exclusion of small sources through a de minimis provision. De minimis provisions have historically been included in corporate level reporting programs because of the many small sources that are present in a corporate wide inventory (e.g., lawn mowers). This proposed rule specifies the source categories that must be reported and does not require reporting from other small sources not explicitly specified. Therefore, allowing de minimis exclusions is not necessary and would introduce bias and under-reporting in the data.

6. Schedule for reporting

EPA Proposal:

- Facilities and suppliers would begin collecting data on January 1, 2010. The first emissions report would be due on March 31, 2011, for emissions during 2010.

WRI Comment:

- WRI supports EPA’s proposal. Emissions data must be reported as soon as possible in order to support rapidly emerging policy needs, including regulatory GHG programs (e.g., cap and trade) expected to begin in 2012. To meet these needs, the first emissions reports should be due on March 31, 2011, as proposed. The timeline is realistic since affected facilities are already collecting the necessary data to report under this rule and would not have to install any significant new monitoring equipment.
- In the event that the regulation is not issued in time for monitoring to begin on January 1, 2010, WRI supports EPA’s proposal that best available data be reported for the 2010 calendar year by March 31, 2011. Best available data should be used instead of introducing any delay in the reporting schedule.

7. Duration of reporting

EPA Proposal:

- EPA is proposing that the rule require the submission of GHG emissions data on an ongoing, annual basis. The snapshot of information provided by a one-time information collection request would not provide the type of ongoing information which could inform the variety of potential policy options being evaluated for addressing climate change. EPA is taking comment on other possible options, including a commitment to review the continued need for the information at a specific later date, or a sunset provision. Once subject to this reporting rule, a facility or supply operation would continue to submit reports even if it falls below the reporting thresholds in future years.

WRI Comment:

- WRI supports EPA's proposal to require reporting on an ongoing basis. Current U.S. and international climate change policies include a time horizon extending to at least 2050. EPA must support these policies with data reported at least annually from affected sources in perpetuity without any sunset provision.
- WRI agrees that once subject to this reporting rule, a facility or supply operation should continue to submit reports even if it falls below the reporting thresholds in future years.

8. Verification

EPA Proposal:

- EPA proposes self-certification with EPA verification, rather than requiring third-party verification. EPA would review the emissions data and supporting data submitted by reporters to verify that the GHG emission reports are complete, accurate, and meet the reporting requirements of this rule.

WRI Comment:

- Verification is critical to ensuring that reported data is accurate and complete. The verification requirements must be rigorous enough to ensure that reported data is of sufficient quality to meet all current and anticipated policy needs, regardless of whether EPA or third-party verifiers are responsible for carrying out verification. Most important is the ultimate goal of ensuring high quality emissions data.
- EPA should ensure that it has sufficient capacity to thoroughly verify reported emissions data so that the quality of reported data achieved through agency verification is of sufficient quality to meet all current and anticipated policy needs, and is as rigorous, accurate and complete as third-party verification systems (e.g., California's mandatory reporting program, TCR, EU-ETS, and CCAR). Robust verification is likely to require that reporting entities submit additional data elements beyond emissions data to facilitate the verification process. WRI expects that EPA will build from past experience using agency verification under the Acid Rain Program.
- EPA should consider requiring third-party verification if agency verification does not yield the quality of reported data necessary to inform and support a range of emerging GHG policies. In particular, a federal cap-and-trade program is likely to require a high level of assurance in reported data, so that market participants have confidence in the integrity of the program.

9. Relationship of this proposal to other GHG reporting programs

WRI Comment

- *The Climate Registry (TCR)*: TCR will continue operating as a platform for corporate-level GHG reporting that serves additional goals beyond supporting regulatory programs. Companies will continue to need a platform to credibly document GHG performance to stakeholders. Corporate-level reporting includes additional data beyond emissions from large emitting facilities, namely a total corporate footprint that includes both direct and indirect emissions – such as indirect emissions from electricity use (scope 2) and emissions resulting from a company's products and supply chains (scope 3). EPA should ensure coordination with TCR to facilitate GHG reporting

throughout the U.S. and reduce the burden on companies reporting to both programs. For example, EPA should allow data to be exported from its mandatory program to TCR to avoid duplicate reporting. EPA should also explore other data transfer opportunities to maximize consistency and reduce costs in GHG reporting.

- *Securities and Exchange Commission (SEC)*: Within the next few years, many observers expect the SEC to require annual reporting of GHG emissions data from publicly traded companies for which climate change poses a material financial risk. This comes in response to demands by investors and environmental advocates that companies are not currently disclosing their financial risks associated with climate change. EPA should actively coordinate with the SEC to ensure that high quality corporate-level GHG data is reported in annual financial filings and that the SEC leverages the data reported to EPA under this proposed rule. As a step toward coordination, EPA should require that all sources and facilities reporting to EPA identify their parent company and their place in the company's organizational structure to allow individual facilities to be readily associated with their parent companies and to facilitate linkages with corporate GHG reporting mandated by the SEC.

10. Offsets and Allowances Tracking

EPA Proposal:

- This proposed rule applies to the reporting of emissions data only, not to offsets or allowances.

WRI Comment:

- The emissions data collected under the mandatory reporting rule is likely to be used to implement a cap-and-trade program, in addition to serving other policy objectives. A cap-and-trade registry must track offsets and emissions allowances in addition to emissions data from covered sources. WRI recommends that in designing an emissions reporting system, EPA include the ability to track offset credits, from both domestic and international sources, as well as emissions allowances, and enable such features as banking and borrowing of allowances. A comprehensive emissions, offsets, and allowance tracking system that serves the needs of a future cap-and-trade program will ensure an effective and integrated future program.

11. Public Disclosure

WRI Comment:

- All emissions data submitted to EPA should be made publicly available on the Internet in a transparent and timely fashion. As much data as possible that is reported under this regulation should be made public.
- For a cap-and-trade program, public disclosure of emissions data is necessary to:
 - Ensure an efficient and well-functioning emissions market by providing market participants with transparent, up-to-date information; and
 - Build public confidence in the program by transparently documenting compliance and emissions trends.
- Public disclosure also ensures public accountability, which provides an additional driver for companies and facilities to reduce emissions. The Toxics Release Inventory is credited with achieving reductions in chemical releases by requiring public reporting at the facility level.
- Emissions data should not be claimed as confidential business information. Public reporting of GHG emissions and fuel use data in the electric power sector is already commonplace through EPA's eGRID database, which contains publicly available fuel use and CO₂ emissions data at the power plant level. Facility-level CO₂ emissions data are publicly available for electric generating units covered by the U.S. Acid Rain Program and facilities covered by the EU-ETS. Unlike process-specific activity data or fuel input data, emissions data are less likely to present competitive risks and will provide the most benefit to the public and participants in emissions trading and other regulatory programs.

Figure 1: Emissions Allowance Price in the EU-ETS, 2005-2006

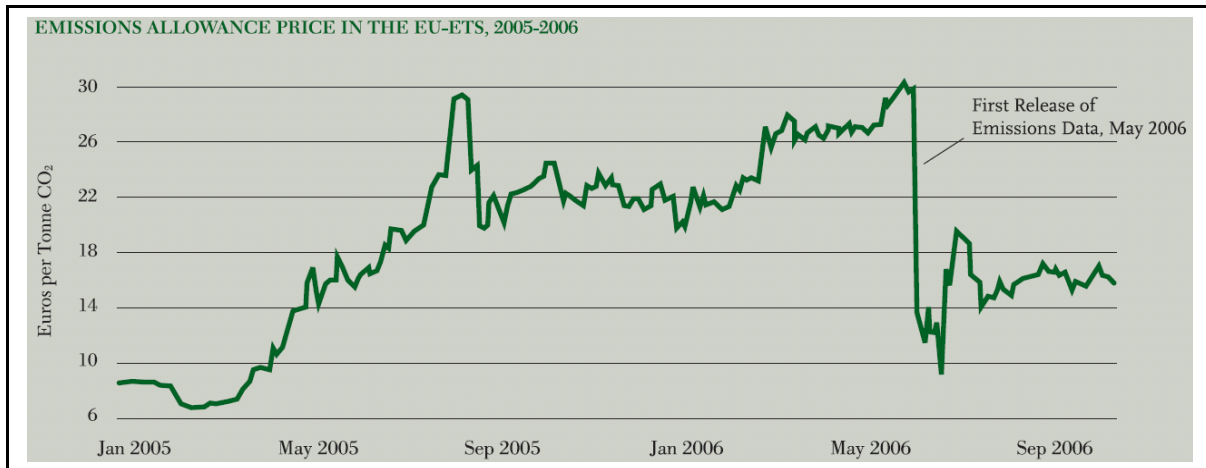


Figure 2: Direct and Indirect CO₂ Emissions from Fossil Fuel Combustion by End-Use Sector

