SBTi CNZS V2.0 Consultation Survey: American Cleaning Institute Comments

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6. Organization name: American Cleaning Institute

7. Type of organization:

- Industry Associations & Business Networks

8. What country is your organization headquartered in? If you are responding in a personal capacity, please select the country where you are based.

- United States

10. Results of this consultation will be made publicly available but may be anonymized to the stakeholder group level. For example, "*ABC Corporation*" becomes "*Company*". Would you like your responses to be made anonymous?

- Yes, I wish to remain anonymous
- No

11. Are you a current or previous SBTi advisory or working group member? (+ follow up non-mandatory question, of "12. If so, which group?")

Yes

No

14. How would you like to respond to this survey?

I would like to respond to all questions in the survey (estimated time ~2 hours)

I would like to respond to questions on a specific topic or topics

23. GHG emissions reporting at activity level should be required:

- For scope 1 and 2
- Across scope 1 and 2 and for emission-intensive activities in scope 3
- Across all scopes

- I don't agree with any of the proposed options
- Not relevant to me

(Optional) Please explain your response.

ACI members feel that the activity-level reporting requirements in the draft standard are vague, especially as it pertains to emissions-intensive activities. It is not clear in practical terms what greater granularity would look like for emissions-intensive activities, specifically those identified as emissions-intensive commodities. ACI recommends that SBTi:

(1) further elaborate on how companies would report GHG emissions at the activity-level;
(2) provide a precise definition of "activity-level"; and
(3) provide more context as to how companies need to "analyze their GHG at a more granular level".

Generally, ACI members feel that SBTi should not necessitate specific GHG accounting methodologies, and instead should only focus on integrating elements necessary to develop targets. Reference to the GHG Protocol wherever possible would be the preferred way to provide all definitions related to carbon accounting and reporting.

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25. To what extent do you think it is feasible to have fully traceable data by 2035 for emission-intensive activities?

- Agree with 2035
- 2035 is too early
- 2035 is too late
- Unsure
- Not relevant to me

(Optional) Please explain your response.

ACI members generally support the long-term direction of SBTI's guidance around traceability , but are concerned over early-stage feasibility, especially for small and medium enterprises that lack the resources to obtain data at this granularity along this timeline and for regions that currently have low data transparency. ACI members recommend that SBTi provide more flexibility around the fulfillment of this request and identify pathways for companies at different levels of supply chain maturity to achieve full traceability of their data throughout various timeframes up to 2050. Member companies

also recommend that the technology enabling traceability must be scalable, feasible, and affordable for broad implementation before mandating full direct traceability. ACI members support 'indirect mitigation' measures, such as a 'book and claim' chain of custody models, as a means to enhance the incentivization of decarbonization interventions via environmental attributes in the immediate.

Separately, ACI members find the requirement to perform an uncertainty assessment in their data quality evaluation (C10.3) for traceability in the base year to be labor-intensive and costly. Members also feel that conducting this onerous assessment will not add much value to their companies' decision-making as it pertains to Scope 3 emissions. ACI members suggest that SBTi remove the requirement for an uncertainty analysis under C10.3.

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26. To what extent do you think that the 5% significance threshold for scope 3 categories is a meaningful way to identify relevant emissions sources to be included in scope 3 targets?

- The threshold should be lower to include more emissions sources within the target boundary
- The threshold is appropriate
- The threshold should be higher to include fewer emissions sources within the target boundary
- Scope 3 categories are not useful for identifying relevant emission sources
- Not relevant to me

(Optional) Please explain your response.

The standard removes the concept of materiality (as used in the GHG Protocol) and replaces it with a quantitative threshold (i.e., 5% threshold for Scope 3 categories and 1% or 10,000 tCO_2e threshold for emissions-intensive activities). ACI members found the different thresholds to be inconsistent throughout the draft document, which may cause confusion. ACI recommends that SBTi clarifies how these thresholds should be applied (and how they interact). Members generally find the 5% threshold for Scope 3 category inclusion appropriate if a numeric standard is going to replace the GHG Protocol concept of materiality, however Members generally prefer maintaining the flexibility of the materiality concept rather than imposing a required numeric threshold. ACI members also request that SBTi explicitly clarify that this 5% significance threshold for Scope 3

categories does not include indirect use-phase Scope 3 emissions (i.e., indirect use phase emissions are not required to be assessed in Category 3.11).

CNZS-C8.4 - Feedback from the scope 3 discussion paper supports shifting from a percentage-based scope 3 target boundary (e.g., 67% of total scope 3 emissions) to identifying the most relevant emission sources. One proposed threshold includes any emission-intensive activity that exceeds either:

1. 1% of total scope 3 emissions - to exclude negligible sources.

2. 10,000 tCO2e - to prevent exclusions of significant absolute emissions.

This question focuses on threshold (1) above.

28. To what extent do you think the 1% significance threshold for emission-intensive activities is meaningful in identifying relevant emissions sources to be included in near-term scope 3 targets?

- The threshold should be lower to include more emissions sources within the target boundary
- The threshold is appropriate
- The threshold should be higher to include fewer emission sources within the target boundary
- Not relevant to me

(Optional) Please explain your response.

The standard removes the concept of materiality (as used in the GHG Protocol) and replaces it with a quantitative threshold (i.e., 5% threshold for Scope 3 categories and 1% or 10,000 tCO_2e threshold for emissions-intensive activities). ACI members found the different thresholds to be inconsistent throughout the draft document, which may cause confusion. ACI recommends that SBTi clarifies how these thresholds should be applied (and how they interact). Members find the 1% significance threshold for emissions-intensive activities to be too low and that SBTi should allow companies to stay focused on their biggest opportunities for emissions reductions. ACI members recommend mirroring the 5% threshold proposed for the inclusion of Scope 3 categories for emissions-intensive activities and making this threshold optional to avoid undue increased complexity for companies. Generally, members prefer maintaining the flexibility of the materiality concept captured in the GHG Protocol. If enacted, ACI members also request that SBTi

explicitly clarify that this threshold for emissions-intensive activities does not include indirect use-phase Scope 3 emissions.

CNZS-C8.4 - This question focuses on threshold (2) above. The 10,000 tCO2e threshold is proposed as an additional failsafe to avoid exclusion where these emissions may still be significant on an absolute basis, and is consistent with the emissions threshold proposed by SBTi to define a "small" business in the company categorization section (i.e. that a company's scope 1+2 emissions combined must be less than 10,000 tCO2e). 10,000 tCO2e is also used as a threshold for defining smaller emissions sources by other standards, e.g. the Gold Standard defines "microscale" projects as those with annual emissions reductions under 10,000 tCO2e.

29. To what extent do you think the 10,000 tCO2e significance threshold for emission-intensive activities is meaningful in identifying relevant emissions sources to be included in near-term scope 3 targets?

- The threshold should be lower to include more emissions sources within the target boundary
- The threshold is appropriate
- The threshold should be higher to include fewer emission sources within the target boundary
- Not relevant to me

(Optional) Please explain your response.

The standard removes the concept of materiality (as used in the GHG Protocol) and replaces it with a quantitative threshold (i.e., 5% threshold for Scope 3 categories and 1% or 10,000 tCO_2e threshold for emissions-intensive activities). ACI members found the different thresholds to be inconsistent throughout the draft document, which may cause confusion. ACI recommends that SBTi clarifies how these thresholds should be applied (and how they interact). Members find the 10,000 tCO2e significance threshold for emissions-intensive activities to be too low and that SBTi should allow companies to stay focused on their biggest opportunities for emissions reductions. ACI members recommend increasing this significance threshold to 50,000 MT CO2e and making this threshold optional to avoid undue increased complexity for companies. Generally, members prefer maintaining the flexibility of the materiality concept captured in the GHG Protocol. If enacted, ACI members also request that SBTi explicitly clarify that this threshold for emissions-intensive activities does not include indirect use phase Scope 3 emissions.

CNZS-C11 - SBTi encourages and aims to support improvements in data quality for emissions inventories. However, these improvements may require companies to recalculate base-year emissions-a significant effort. To address this, SBTi is seeking feedback on whether a 5% change in emissions due to data quality improvements is a reasonable threshold for triggering a target base-year recalculation.

32. Do you think improvements in data quality that lead to a 5% or more cumulative change in base year emissions should trigger base year emissions recalculation?

- Yes
- No, the threshold should be more than 5%
- No, the threshold should be less than 5%
- Not relevant to me

(Optional) Please explain your response.

ACI members are concerned that the 5% re-baselining threshold, based only on data quality improvements, is too low and may force some companies to have to re-baseline more frequently than is reasonable for them to do so. This is especially the case because the 5% threshold, as presented, applies at a category level and not at the top-line inventory level. Constant re-baselining can be laborious for companies and may distract from actual decarbonization progress. Members recommend that there be more balance between tracking progress and avoiding excessive recalculations by increasing the re-baselining threshold to at least 20% for changes based only on data quality improvements. Some companies may have a preference for more frequent baselining, and as such, a higher threshold will not restrict those companies from doing so. This increased threshold generates higher optionality on the re-baselining frequency, to allow companies to choose the frequency that makes the most sense for the business.

CNZS-C14.4

Based on stakeholder feedback, including from the academic community, CNZS V2.0 proposes a budget-conserving contraction approach for scope 1 target setting. This method modifies the existing absolute contraction approach by ensuring the cumulative emissions budget is maintained- correcting overshoots with stricter future targets.

Recognizing that this approach could lead to unachievable targets for some companies, SBTi is also proposing an alternative: the linear contraction method. This method, adapted

from the absolute contraction approach, provides all companies- regardless of past performance- a viable path to net-zero by 2050.

SBTi seeks feedback on these methods to determine which best supports credible corporate climate targets aligned with ambitious 1.5°C pathways.

38. Which option do you prefer for calculating scope 1 targets (per Appendix 1, p.9)?

- Option 1: Budget-Conserving Contraction approach, where target ambit ion levels are a function of past performance and ensure emissions are reduced at levels required to reach net-zero by 2050 and conserving the budget of cross-sector pathway
- Option 2: Linear Contraction approach, where target ambit ion levels are not a function of past performance and only ensure emissions are reduced at levels required to reach net-zero by 2050
- I do not agree with any of the proposed options
- Not relevant to me

(Optional) Please explain your response.
ACI members do not agree with SBTI's requirement for companies to create separate Scope 1 and 2 targets. Member companies feel that requiring separate Scope 1 and 2 targets adds unnecessary complexity, requires superfluous effort, and diverts company focus from direct actions needed to reduce emissions from their operations. Members feel that as long as net Scope 1 & 2 emissions continue to decline in a manner that is aligned with net zero, optimized progress is being made. ACI recommends that SBTi keep Scope 1 and 2 target setting as-is (i.e., combined).

CNZS-C15.1

44. To what extent do you support the requirement for companies to have a location-based target as well as a market-based or zero-carbon electricity target?

- Strongly support
- Somewhat support
- Neutral
- Somewhat oppose
- Strongly oppose
- Unsure
- Not relevant to me

(Optional) Please explain your response.

ACI member companies find the requirement to have both market-based and location-based targets for Scope 2 to be both confusing and impractical, especially as companies have very little influence over location-based Scope 2 emissions. ACI recommends that SBTi provide flexibility in choosing between market-based and location-based targets, in line with the GHG Protocol, rather than mandating both. In the event that separate targets (i.e., location and market-based) remain, ACI members also recommend that SBTi clarify what happens if one target is met, but not the other.

CNZS-C15.1- To maintain a "technology-agnostic" stance, as required by the Standard Operating Procedure for Development of SBTi Standards, Version 2.0 introduces zero-carbon electricity targets as an evolution of renewable electricity targets. This change acknowledges that some grids offer zero-carbon electricity sources, such as nuclear power, alongside renewables.

45. To what extent do you support the transition from renewable electricity targets to zero-carbon electricity targets?

- Strongly support
- Somewhat support
- Neutral
- Somewhat oppose
- Strongly oppose
- Unsure
- Not relevant to me

(Optional) Please explain your response.

ACI recommends language that avoids stigmatization of all energy sources required to advance net-zero solutions over the coming decades. As such, members recommend that SBTi replace the term "zero-carbon electricity" with "low-carbon energy" to better align with the International Energy Agency (IEA) model and to allow for a broader set of technologies, such as CCS, to play a role in the transition to net-zero. Members also recommend that SBTi allow for abated carbon (e.g., via CCS) at some capacity in the zero-carbon energy targets, to both allow for technology development and to ensure that evolving solutions are not prematurely excluded, and because climate science calls for the use of technologies such as CCS. Members also feel that the exclusion of fossil-fired electricity is impractical, in light of real-world challenges such as grid reliability and the current capacity of renewable energy systems. A preferable, more transparent, and more flexible approach addressing all of the above would be to require a scope 2 carbon

reduction target, which could be met with a combination of renewable, other zero-carbon, and low-carbon energy.

CNZS-C16.2- The new standard focuses company action on relevant emissions sources, including emission-intensive activities in the value chain. By setting activity-level targets for these activities, companies can take more targeted action on critical emissions sources for the global net-zero transition. SBTi seeks to assess the feasibility of this criterion.

Under the new standard, any emission-intensive activity making up at least 1% of total scope 3 is considered 'relevant' and must be included in company targets. This question aims to determine the appropriate threshold for requiring specific activity-level targets- whether it should remain at 1% (Option 1) or be set higher (e.g., 3% or 4%). The goal is to ensure key emissions sources are addressed while avoiding an excessive number of activity-level targets for companies.

48. To what extent do you agree activity-level targets should be mandatory for emission-intensive activities?

- Strongly agree
- Somewhat agree
- Neutral
- Somewhat disagree
- Strongly disagree
- Unsure
- Not relevant to me

(Optional) Please explain your response.

Generally, member companies find that the increased granularity of data required by the draft standard raises the complexity of reporting, especially for small and medium enterprises (SMEs) that may lack the necessary data infrastructure. Furthermore, members are concerned that data collection efforts place undue burden on smaller actors in the value chain, increasing their need for additional resources, and ultimately increasing costs that may be passed to the end user. ACI members recommend that SBTi performs a socio economic analysis to determine the costs and benefits of requiring this level of granularity in the data.

CNZS-C16.5 - CNZS V2.0 introduces the concepts of direct and indirect mitigation. Direct mitigation refers to actions linked to specific emissions sources in a company's value chain through a robust chain of custody model and remains the priority in the standard. When direct traceability is not possible or unsurmountable barriers prevent addressing certain emissions, the draft standard acknowledges a time-limited role for indirect mitigation in driving relevant transformation. For example, procuring sustainable aviation fuel through a book-and-claim approach could help address jet-fuel-related emissions. Indirect mitigation measures must meet quality criteria, which will be refined during the consultation process.

SBTi is evaluating whether, under specific conditions, indirect mitigation should count toward target achievement. The proposed conditions include: (1) direct mitigation is not possible, (2) indirect mitigation delivers measurable, comparable outcomes, (3) it is used only as an interim measure, and (4) it is reported separately to ensure transparency about how targets are met.

51. To what extent do you support or oppose the proposal for indirect mitigation to count towards scope 3 target achievement, under the condition that it is only used as an interim measure if direct mitigation is not possible, delivers measurable comparable outcomes to direct mitigation and is reported separately to direct mitigation?

- Strongly support
- Somewhat support
- Neutral
- Somewhat oppose
- Strongly oppose
- Unsure
- Not relevant to me

(Optional) Please explain your response.

ACI generally supports the use of indirect mitigation as it pertains to Scope 3 target achievement. Member companies note that the standard lacks clarity on what might constitute the “interim period” when referring to use of indirect mitigation on a time-limited basis. ACI recommends that SBTi provide guidance on the timeline for use of indirect mitigation for Scope 3 target achievement, as clarity on the duration and vintage of ‘indirect mitigation’ instruments has a bearing on the development, pricing, and ultimately the supply/demand balance for the ‘indirect mitigation’ instruments that will be deemed acceptable by the Corporate Net-Zero Standard 2.0.

ACI notes that Indirect Mitigation actions may pose some risks, but overall members generally support the inclusion of these actions as important measures to achieve realistic reductions.

Risks associated with Indirect Mitigation may include:

- Risk of bypassing actual supply chain actors: Some members present concerns that indirect mitigation measures may bypass actual supply chain actors, leading to a lack of economic incentives for direct supply chain decarbonization.
- Risk of double counting: Members present concerns about the risk of double counting emissions reductions (e.g., a company issuing EACs must report their PCFs as if they were not affected by the reduction project).

ACI members support measures proposed by SBTi and other bodies that tend to mitigate these risks, including:

- Emphasizing the need for clear reporting and accounting mechanisms to avoid double counting. However, the Net-Zero Standard should maintain a principle-based approach and avoid naming or privileging specific certification schemes or registries. Eligible attribute certificate systems should align with ISO 22095 and adhere to these principles:
    - Demonstrable GHG reductions verified through standardized LCA models;
    - Regulatory additionality and relevance to the buyer's emissions profile;
    - Transparent registry systems and clear retirement rules;
    - No double counting or double claiming across markets or standards; and
    - Independent third-party verification.
- Known Supplier Method: SBTi should favor indirect mitigation actions, such as book-and-claim that align with the direct supplier method, where companies should obtain indirect mitigation EACs from their known suppliers to ensure traceability and relevance to the actual supply chain, even if not traceable to the actual commodity physically received.

Member companies also call for a clear distinction between the accounting approaches for bundled supply (environmental attributes + physical product) and unbundled supply (attributes separated from product). ACI members agree on the importance of the inclusion of both bundled and unbundled attributes, but stress the need for segregation in accounting and reporting to maintain integrity and transparency. ACI members recommend that bundled EACs fall under direct mitigation (e.g., tracing bio-content in a

product) and that unbundled EACs should be treated as indirect mitigation (e.g., book and claim systems).

Lastly, ACI broadly supports the concept of "activity pools" when direct traceability is not feasible and members acknowledge that "activity pools" are a useful transitional and incentivization mechanism, especially for complex supply chains and emerging markets.

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93. If you have any additional feedback, insights, or considerations that you believe would contribute to the development of CNZS V2.0, please share them below.

ACI members appreciate SBTi's efforts to develop a workable draft standard and the opportunity to provide feedback on the draft Net-Zero Standard V2. Below, we present a general summary of the key observations we addressed in the specific consultation questions.

Generally, ACI members feel that the draft standard introduces increased complexity of reporting (i.e., granularity of Scope 3 data required, uncertainty analysis for traceability, re-baselining thresholds) that may be resource-intensive and onerous for actors throughout the value chain and may distract from the goal of achieving science-based emissions reductions. ACI members also feel that the 5% re-baselining threshold is too low and may force some companies to have to re-baseline more frequently than is reasonable for them to do so.

ACI is supportive of the long-term direction of SBTI's guidance on traceability, but are concerned about earlier implementation timelines for some of the more granular requirements and are seeking guidance from SBTi as to how to reach those goals in interim years. ACI member companies also broadly support the concept of "activity pools" and generally support the use of indirect mitigation. Members recognize that indirect mitigation measures may present some risk, but they are supportive of measures proposed by SBTi and other bodies that tend to mitigate these risks such as clear reporting and accounting mechanisms to avoid double counting and use of the known supplier method. Additionally, ACI is calling for elaboration on the "interim period" for the use of indirect mitigation and the designation between bundled and unbundled environmental attributes as it relates to their accounting approaches.

Lastly, members believe that requiring separate Scope 1 and 2 targets and/or separate Scope 2 market- and location-based targets is impractical and diverts company focus from direct emissions reduction activities. ACI is supportive of replacing the term "zero-carbon

electricity" with "low-carbon energy" as a means of avoiding stigmatization of all energy sources required to advance net-zero solutions over the coming decades (e.g., CCS), which will allow for the facilitation of technology development.

Three final comments not captured elsewhere in the consultation survey are included below:

1) ACI member companies note that the requirement for all companies to assess FLAG, bioenergy, and removals per the draft Land Sector and Removals Guidance (C5.1.2) is seen as a significant barrier to meeting the SBTi NZ standard, as the guidance is long, complex, and the finalization timelines and revision processes are unclear.
2) ACI also found the recommendation to use recognized biofuel certificates (R5.5) to be infeasible for many users. Members note that these certificates may not be accessible for many biofuel consumers and that some mass balance systems may not require certificates, therefore certificates will not be available to back the consumers' claims. Certification is critical in book-and-claim systems, but may not always apply in commodity pools or mass balance approaches. ACI recommends that SBTi provide flexibility around the need for certificates across all bioenergy use cases.
3) Members recommend that SBTi consider recognizing market-based accounting approaches for the reporting of reduced Scope 1 emissions from lower carbon products towards decarbonization targets.