NET ZERO METHODOLOGY FOR HOTELS

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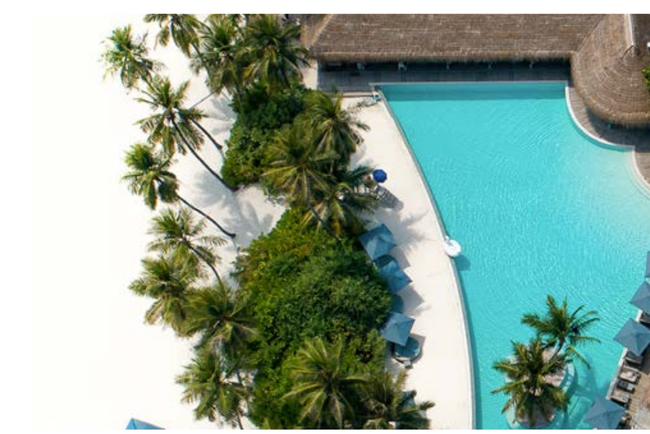
APPENDIX P

FREQUENTLY ASKED QUESTIONS



APPENDIX P: FREQUENTLY ASKED QUESTIONS

The questions below emerged during the consultation process and will be reviewed and updated following further comments and queries.

1 **Is this methodology intended for all hotels or just the big brands?** This methodology attempts to set out an approach to net zero which is applicable to all sizes of hotel company. While it is recognized that some of the larger operators will by necessity be driven by specific external methodologies, such as the Science Based Targets initiative, and that some types of hotel, such as island properties with very specific transport and energy generation situations, will need to adjust priorities to their own realities, it is intended that the basic processes, definitions and assumptions are helpful to all sizes of portfolio. In addition, there are some hotel companies which sit within larger conglomerates which will have their own approaches to net zero. In this case the methodology can help the hotel sections of the business communicate how general approaches should be adapted to the specific needs of hotels.

2 **Does this methodology represent a standard approach to net zero which must be adhered to by all in the hospitality sector?** As outlined above, this methodology is intended to provide a comprehensive approach and pathway to net zero for hotels. However, it is not a **standard** to be adopted or require certification or reporting for itself, as it is designed to be adapted to the specific situations of different hotel operators and owners.

3 **What is the relationship between this methodology and the Science Based Targets initiative?** See Appendix E for the relationship and alignment.

4 **How does the reporting approach set out in this methodology relate to existing ESG disclosures?** The reporting approach set out in the methodology is not intended to be an additional set of reporting separate from existing ESG disclosures, nor is there any requirement to report against it (see note 2 above). However, the milestones identified in the methodology should be highlighted in company annual sustainability reports or ESG performance tables and used as a means to show progress towards net zero. By reporting against these common milestones, it is possible to benchmark and compare progress as well as communicate transparently to stakeholders who can refer to the methodology consistently.

5 **Why is real estate called out separately when it is part of the value chain?** Although real estate is part of the value chain, those working in the real estate sector do not always focus on or understand their relationship to tourism. A significant challenge for the hotel sector is to build awareness among the commercial real estate community about the nuances, best practices, and industry norms of hotels as real estate assets that differ from other asset classes. This methodology seeks to enable understanding of how net zero relates to a hotel as real estate in addition to travel.

6 **Why is the goal net zero by 2040 for operations and 2050 for value chain?** Ideally companies should be aiming for a goal of net zero by 2040 as this is the year cited by the UN Race to Zero 'starting line criteria'. Furthermore, the World Green Building Council's Net Zero Carbon Buildings Commitment calls for net-zero operating emissions of the building by 2030, which influences the commitment perception of commercial buildings in general. In addition, the recent IPCC report and large increase in commitments for COP27 are likely to accelerate pressures to the system in general and move the timeline up for generally accepted net-zero commitments. However, we recognize that 2040 is highly ambitious to achieve net zero across the value chain, especially when several aspects still need further guidance and calculation support. Also, physical buildings will be in place in 2040 for which decisions will need to be made today and is unlikely to happen at scale. As such, the methodology stipulates 2040 should be the net-zero target year for the hotel building from an operations perspective, and 2050 net-zero for others in the value chain and where the organization has less control.

7 **How do downstream leased assets such as stores or restaurants neither owned nor operated nor branded with the hotel, but which utilize space within the hotel, fall under hotel boundaries and responsibilities?** These tend to be included in the utility usage and counted as Scope 1 & 2 even if not technically operated by the hotel, such as a restaurant, gift shop etc., as they are not commonly sub-metered and separated out from GHG emissions data reported by hotel portfolios. Alternatively, they are included in the case of an integrated resort with the assumption being that they would still be under some financial control. Also, in hotels where they are a minor % of floor area and they are relatively small, they tend to be excluded, and from the operator's perspective where the operator does not own the building, technically they are not leased assets under ownership and separate from the operator.

8 **Why is floor area used as the intensity metric rather than other options such as room night, guest night, or occupied room?** Floor area is used as the intensity metric as this is consistent with the Sectoral Decarbonization Approach for service buildings. It is also the intensity metric related to the most important variable for a hotel company's pathway as it changes over time. However, other metrics are set out so companies can choose those which may be more relevant or comparable for their own needs and used in addition to floor area.

9 **How is 'floor area' defined for intensity metrics?** There is no commonly used consistent definition or approach to 'floor area' worldwide. The recommended approach is to use the Mixed-Use Properties: Standard Methods of Measurement (ANSI/BOMA Z65.6—2012) standard, but which lacks specifics for hotels, and ultimately hotels will use what they are already using which could be gross floor area, conditioned/enclosed space or another definition guided by local or national regulation. It is not the aim of this methodology to define it, but once an agreed definition or set of parameters are available it can be incorporated.

10 **Why is the definition of 'baseline' emissions not lined to a Business As Usual (BAU) scenario?** The original concept of a baseline was Business As Usual (BAU), however in practice now, especially with the advent of SBTi and others, a baseline amounts to a year chosen from which progress on a target can be calculated. There are two key challenges to the concept of BAU: 1) in the current landscape, where many hotels and companies have set targets and achieved reductions by implementing efficiency measures and moving to renewables up until now, a BAU in theory includes doing those things, and 2) most of the hotel's Scope 1 & 2 emissions will come from purchased electricity, where the grid decarbonization over time has been achieved and forecasting is needed but is constantly changing, which makes a business-as-usual baseline approach difficult as a primary lever to decarbonization as it is inherently variable.

11 **How should portfolio changes over time be reflected in the baseline?** According to the GHG Protocol, increases in the boundary over 5% justify an adjustment to the baseline. In the business model of hotel operators and in some ownership entity types, hotels and floor area are continuously added over time, and will routinely trigger a 5% threshold. However, it is cumbersome to perform full calculations to reset a baseline by adding an existing building converted to the portfolio, tracing back its original emissions from baseline year or earlier through the present, then weighting it accordingly. The simplified hotel model takes this into account by adding any floor area to the portfolio in the year it was acquired, but not changing the baseline intensity or target pathway to intensity convergence unless a major change such as a merger or large acquisition occurs. Similarly, if a hotel is disposed of or exits the system, the same approach applies and no change in baseline or target pathway occurs. The intent of this approach is to reduce the burden on companies to constantly be challenged to adjust baselines and change forecast results, when all have the same ultimate target of net zero.

12 **Should we be setting absolute or intensity targets for our company?** There are advantages and disadvantages of both absolute and intensity targets. While it is recognized that absolute targets are the only valid way to properly decarbonize and are most valuable to many external bodies, the methodology starts with an intensity target as the base as it can be extremely challenging to articulate an absolute target when starting out and rallying support across all stakeholders as it is not always easy to understand in terms of how individuals need to address it within their roles. Also, the Sectoral Decarbonization Approach uses intensity target metrics of floor area for buildings. Even if using intensity metrics as the absolute reduction, progress should be reported as well in order for stakeholders to be able to understand performance holistically.

13 **How can yardstick years be realistic in countries where, for political or other reasons, the move towards renewables / regulation is slow?** It is recognized that there will be challenges in some countries. The provision for mature and developing markets highlights this and does allow for flexibility, as does the business model equity principle. The methodology outlines the proposed yardsticks, much of which is also calling for a plan and some quantification deferred until 2025 or 2030 to address. At a portfolio level, the mix of countries with solutions and stakeholder pressures should support overall efforts as much as possible. Much uncertainty still exists at the time of publication as to the forecasting of market readiness for purchasing renewables per country, region, and globally, and could evolve in the coming years. As such, the methodology will seek to adapt as needed to provide the most sound guidance that strikes a balance between practicality and ambition that can be applied to any hotel and hotel company.

14 **Why is it recommended that F&B emissions are not simply measured in number of meals?** Combining all F&B into meals served is problematic for several reasons, most important of which is the significant impact of beef vs. plant-based options. While estimating F&B emissions at high level is more common now for a general approach to quantifying and understanding the footprint or in order to offset, with net zero the implication is that hotels will be accountable for the footprint, will work to reduce their footprint first, and then offset the remainder. By only using number of meals served, the calculation loses the opportunity for influence and control of upstream emissions per $ or per kg of food, when actions such as reducing animal protein, local sourcing where possible, right-sizing serving sizes, and reducing pre-served kitchen prep food waste can be considered. Although it is possible to identify, measure and control top food items, the challenge currently is that they are included in Purchased Goods & Services overall, where there is a lens of % contribution to overall Scope 3 and combined 1+2+3. So by separating out the top items, it is then left for critique to ensure that those in relation to other sources within that category have been addressed and similarly weighted. There is also the risk of regional issues where some hotels do not use some of the key items, and others use much higher intensity products, as well as the need to address the issue of full service vs. limited-service hotels and resort/ non-resort, as depending on the level of F&B in the hotel the amount may vary.

15 **Why is Food and Beverage not listed as a milestone category?** F&B is currently covered in category 9 (Purchased ongoing consumable goods). It will be one of the major contributors and elements to decarbonize in Scope 3. This overall bucket of a GHG Protocol/CDP/SBTi category for a hotel needs to be further segmented and the most important, significant and priority sources out of the myriad purchases that a hotel makes on an ongoing basis will need to be defined. When this happens, it is likely that food will be near the top. There are further challenges with F&B calculation, as it currently does not include additionality – i.e., the fact that humans will eat when they are not traveling. So while F&B decarbonization approaches such as plant-based and locally sourced food are key, it does not seem correct to allocate F&B 100% to a traveler, as they would have eaten anyway if not traveling. More work needs to be done in this area which is why the methodology calls for deferring the baseline.

16 **Why is it recommended that T&D losses, over which hotel companies have little control, be included in Scope 3?** T&D losses are included in the Scope 3 Protocol and are a common category for CDP and SBTi, and as such are necessary to include. While it is recognized that this is out of the control of the hotel in terms of the amount of loss, if the hotel reduces electricity consumption purchased from the grid, then it also reduces T&D losses. In the future, as we move toward market-based accounting and purchased renewable energy, it may be possible to make the case that by purchasing renewables, the T&D losses are also reduced.

17 **How are fugitive emissions addressed in the methodology?** While it is recognized that fugitive emissions can be a significant in hotels, the methodology proposes that they are excluded from Scope 3 calculations. This is based on research at portfolio level[1] which shows that they do not exceed the commonly used cut-off point of 5% of total emissions; and on the GHG Protocol's own tool which indicates that they can be excluded given the Kigali Amendment to the Montreal Protocol. However, it is not the intention to excuse hotels from addressing refrigerants. While the research and cited works support reducing the need for fugitive emissions to be consistently quantified for decarbonization over time, as that is cumbersome (especially at portfolio level and for wider industry of limited service hotels with PTACs), they should have a decarbonization plan in place with engagement targets for effective management and changeout, as that will help bring awareness to it and address the gap.

18 **Why is outsourced laundry not included in Scope 3 at baseline, but rather deferred to 2025?** Outsourced laundry has proven difficult to quantify accurately in scale. Although the HCMI methodology identifies a 10% 'rule of thumb', this was set 10 years ago and was a high-level estimate, and few if any tangible data points have been published to correlate percentage of energy to outsourced laundry that can be used to define industry norms. If this 10% is adopted now, and is then replaced by better and more granular, accurate calculations which are significantly higher or lower, then reductions will be skewed. It is our hope that as part of this effort of pointing out challenges and further opportunities and deferring certain components, better sources and coefficients for outsourced laundry could be developed and subsequently included. This would also provide the opportunity to update the HCMI methodology.

19 **Why are guest transportation in destination and employee commuting**

1 https://ecommons.cornell.edu/handle/1813/71114

included but guest travel to the destination not included? Transportation of guests by vehicles operated by the hotel are categorized as Scope 1 and excluded unless significant. Transportation of guests organized/arranged by hotels but not in vehicles or entities owned or operated by the hotel is included as a Scope 3 emission. In both cases, guest transportation within the destination is part of the direct guest experience and often the hotel can choose or influence the provider and their practices. Guest transport to the destination, however, is largely out of the control of the hotel and is often not directly linked to the hotel stay. As such it is not included unless the hotel's model includes a significant level of direct organizing of transport of guests, such as in the case of private island resorts.

Employee commuting is a listed category in the GHG Scope 3 Value Chain Protocol and includes CDP and SBTi, and based on the current calculations at high level that companies use, which is fairly significant in many places in the United States (which is where the authorship and much of the rationale of the GHG Protocol is found) where most employees drive by themselves several km to work each day. It is also a common category in LEED and other certifications in order to encourage alternative transportation. Furthermore, employee commuting is also a transversal category that many businesses will need to address. As such, employee commuting is included, but the methodology hopes to defer this until later when better and more simplified and accurate calculation methods can be done based on specific cities, whereby some of the employee commuting will be an insignificant source of emissions as cities decarbonize transportation networks.

20 **How can we avoid double counting Scope 3 emissions?** Double counting of Scope 3 is a reality for net zero across all industries and the methodology accepts that the hotel sector will be no different. This is further explored in Section 3 and Appendices C and D. Clarifications are made where possible to avoid double counting (for example waste would be double counting part of the LCA if not separated out) and highlight any overlap in estimations based on calculation methods that bundle or separate some of these as well.

21 **Why does this methodology allow for claiming of carbon offsets, when they have been criticized and the SBTi does not allow them?** First, this methodology seeks to strike a balance between the corporate ESG focus at an organizational level (where offsetting is discouraged and viewed as pay-to-pollute) and the reality of the travel industry where voluntary carbon offsetting initiatives are prevalent and increasing rapidly in terms of the activity of travel despite all the negative corporate ESG lens on them. By not allowing for them or ignoring them, a compelling opportunity to address issues described in the Sustainable Tourism Principle is lost, and offsetting risks being undertaken ineffectively and haphazardly. Second, the sectoral pathways, as originally outlined in the Sectoral Decarbonization Approach and most recently in the SBTi net-zero standard, trace out pathways for commercial buildings in terms of an intensity reduction from 2020 of 20kgCO2e/m2 through 2050 of 0.179kgCO2e/m2. Following this logic, an intensity-based reduction pathway essentially acknowledges that a specifically quantified amount of CO2e emissions are acceptable. Therefore, if a company could reduce emissions to that level and qualify for the most credible recognition of following a science-based decarbonization pathway, then the methodology argues that they should be able to offset the corresponding amount up to that threshold and claim it credibly as well.

22 **Why does the methodology discourage the use of offsets for Scope 2 emissions? What about the regions where renewable energy cannot be procured at the necessary quantities or it is not possible to purchase renewable energy?** Offsets are discouraged to be used for Scope 2 emissions in order to address common criticism of carbon offsets being a first choice and to support transversal decarbonization of the electric power grid. For regions where purchased renewables are not available, potential options include bulk purchasing in a similar offset model for other locations and the use of mechanisms such as I-RECs or TIGRs, which would still help achieve the intended objective. This is a challenge also faced in aligning to frameworks such RE100 as it's not feasible for many types of businesses with relatively small facilities to negotiate PPAs in many of countries, and likely there will be more resources and guidance on this in future iterations of this methodology and complementary initiatives.

23 **Why are equity principles proposed?** The introduction of equity principles is based on the UN Race to Zero criteria. As these are new and in some cases bold, the intent of this methodology is to gain agreement on the three set out – business model equity principle, regional equity principal, and sustainable tourism equity principle – as the fundamentals to use for the industry approach to net zero and carbon offsetting. This will then enable further development and guidance in the future once best practice on equity principles for net zero are put into place, carbon offsetting aspects become more evolved, and overall discussions for net zero for developing vs. developed countries evolve.

24 **Why only focus on sustainable tourism offsets rather than those that contribute to the SDGs in general?** While the SDGs are always the foundation of sustainable development impact activities, the methodology suggests a focus on sustainable tourism as this will help focus the entire travel industry on other benefits that it can have to tourism more specifically. It will also encourage an improved perspective on and approach to offsetting in the industry more generally, through a better understanding of the downstream impacts and beneficiaries. These can often be confused or hidden when linked to general SDGs without local context. In addition, SDG benefits can be drawn out of any sustainable tourism project and of course, where offsets linked to sustainable tourism are not available, the SDGs provide a backup approach.

25 **100% renewable electricity by 2035 may be challenging for hotel properties based in off-grid locations. What does the methodology recommend for hotels based in such locations and how should they become 100% renewable?** Off-grid locations are not considered mature markets if there is no form of purchasing renewable electricity from market mechanisms. The methodology does not call for 100% renewable electricity sourced directly (location-based). Mechanisms such as I-RECs or other cross-border purchases should be considered by then in order to achieve this milestone.