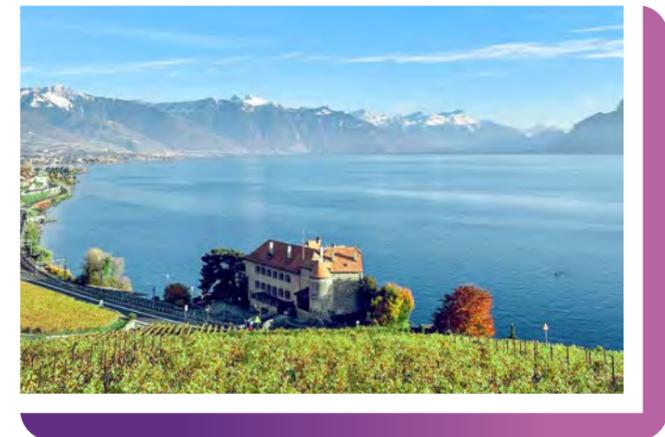
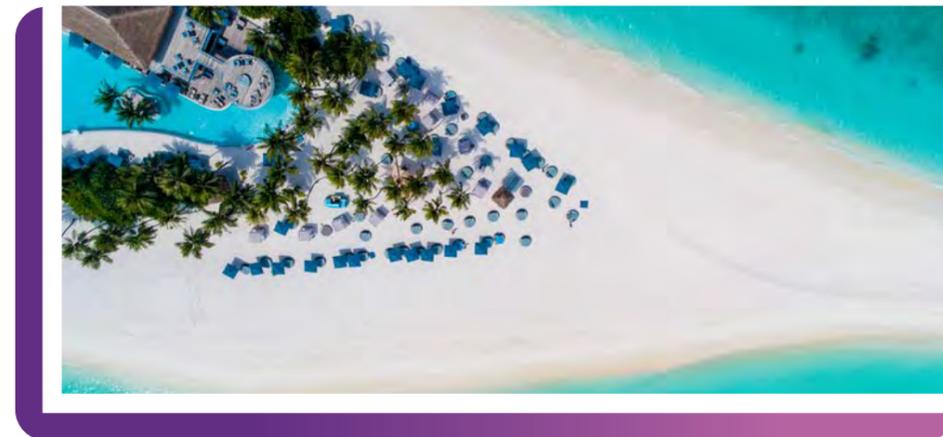
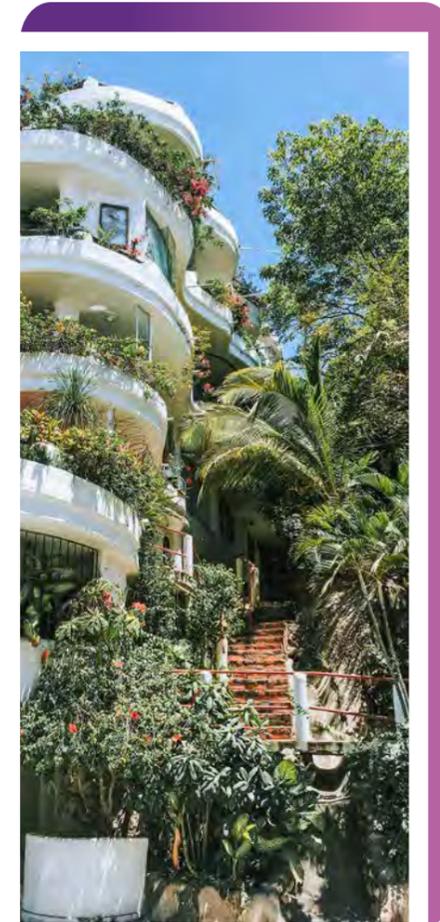


NET ZERO METHODOLOGY FOR HOTELS

2ND EDITION • JUNE 2023

PRACTICAL
GUIDE
TO GETTING
STARTED
FOR COMPANIES


GREENVIEW



AT A GLANCE



STEP BY STEP GUIDE

1 REVIEW THE METHODOLOGY

Seek to understand the main components and terminology, in particular issues of baseline, boundaries, yardsticks, milestones, performance and engagement targets, and the related frameworks for which the methodology can align.

2 MODEL THE PORTFOLIO'S BASELINE AND DECARBONIZATION PATHWAYS

Create a historical and forecast tracker that also incorporates future planning for 2030 portfolio composition, including any foreseen changes in composition. Then for each property or grouping of properties, model the forecasted reduction in grid factors.

VARIABLE 1 Electric Power Grid Decarbonization. Over the next 30 years, electric power utilities will transition to be generated from renewables and lower carbon sources. This is an external factor to the hotel but will be the primary variable to monitor. In an advanced strategy, due diligence on acquisitions will include modeling of electric power grid and decarbonization pathways and embed the cost of purchasing RECs and offsets into the property's capital planning and budgeting.



3 ENGAGE OTHERS IN THE ORGANIZATION AND VALUE CHAIN

As with most aspects of sustainability, the buy-in and integration into the company's structure and processes are more important than the technical solutions. At a high-level, these steps should be taken (and not necessarily in this order) depending on the organization's current view of climate change, reduction targets, and sustainability / ESG.

- 1 Prepare some standard orientation materials.** Create examples of peer commitments, customer commitments, investor pressures, and other business case aspects for all stakeholders to review.
- 2 Map out who will need to be involved organizationally.** As net zero will go beyond just energy efficiency, several departments and people will need to provide input, for example, finance, communications and investor relations will need to be able to maximize the commitment and understand how and where it fits into their work. Hotel owners, C-suite executives, and other decision-makers will ultimately need to make approvals and give mandates for resources and budgets. Other partners (operators, consulting firms) will also be involved in the planning process. Problems often arrive downstream if key people aren't identified and connected to the overall purpose, especially when making a significant financial investment.
- 3 Calculate the initial ask.** The initial ask can be done during Step 2 to show that much of the pathway will be obtained from the grid at no cost to the company, and can be refined over time, considering the viewpoints of discerning stakeholders. Essentially the questions "how much is this going to cost?" and "what does that look like over time?" will need to be answered at a high level, which will then lead to discussions on various approaches.
- 4 Start engaging with stakeholders** through general orientation meetings, and then move toward more specific and concrete proposals of solutions.



4 STUDY THE PORTFOLIO'S OPPORTUNITIES FOR ENERGY EFFICIENCY

Assess the current energy performance and identify opportunities for energy efficiency across the portfolio.

VARIABLE 2 Energy Efficiency. This is the most easily understood and straightforward action to make progress toward net zero. The approach will need to enhance how energy efficiency investments are achieved by studying:

- 1 The carbon intensity of the efficiency measure.** Based on typical accounting procedures in many cases it will be more carbon-effective to reduce electricity than to reduce natural gas usage in the next 10 years, but then less carbon-effective after 2030. Natural gas is less carbon-intensive than diesel or fuel oil, and switching equipment to a lower carbon fuel source may be an option. In the long-term, the general decarbonization model hinges on the electric power grid transitioning to renewables and business stakeholders switching equipment and vehicles to use electric power. Forecasting will depend on the location and situation, but at least by 2030, it is safe to assume HVAC will transition to electric power, as will kitchen equipment.
- 2 The end-of-life opportunities.** Larger equipment such as boilers and chillers tend to be large CAPEX that is amortized and changed after useful end-of-life. Net zero efficiency programs should seek ways to change out older equipment sooner, as waiting for upgrades will inhibit the decarbonization of the property and could cause more operational expenses to fund RECs and offsets.

5 SET SCENARIOS FOR FUTURE COSTS OF RENEWABLE ENERGY AND OFFSETS

Analyze the different scenarios for renewable energy and offset costs to help increase understanding of the different components and provide a high-level insight into budgeting needs.



6 EXPLORE RENEWABLE ENERGY OPTIONS

Renewable energy should be developed as a process or embedded into existing processes. This step involves working with current energy management consultants or providers to identify opportunities; looking into energy procurement (especially in deregulated markets) and understanding how renewable energy can be installed or purchased.

VARIABLE 3 Installing Renewable Energy. For hotels, installations will most likely be solar energy, but opportunities will also exist for wind power, geothermal heating or water-source cooling. For resorts some types of tidal or ocean-driven opportunities will also exist. Although these may not be able to represent a large portion of the property's energy, every bit counts, and the technology will keep improving. A game changer would be if solar PV window film becomes commercially available at scale to envelop a building. Another significant development would be kinetic energy captured from foot traffic and vehicle pathways.

VARIABLE 4 Purchasing Renewable Energy. Purchasing is the most straightforward in concept, although the pricing models will vary and continue to evolve. Renewable Energy Certificates may be purchased as tariffs from the utility, or separately as “unbundled” or as purchases similar to carbon offsets.

7 IDENTIFY AND QUANTIFY THE SCOPE 3 EMISSIONS SOURCES TO INCLUDE IN THE BOUNDARY

After tackling the primary actions on reducing the building's emissions through energy efficiency and renewables, the value chain should be added to the process. A Scope 3 inventory can be conducted by first determining if the default categories and boundary outlined in Sections 2 and 3 of the Hotel Net Zero Methodology are applicable, and then adjusting as needed. Then relevant data needed to convert to carbon emissions and perform calculations can be gathered.

8 EXPLORE CARBON OFFSETTING

Carbon offsetting is the most debated action and least desirable among stakeholder perception, but for net zero to happen, it will need to become part of the equation. As offsetting evolves and becomes part of a company's budget, several considerations should be evaluated as outlined in Appendix D of the Net Zero Methodology for Hotels.



Ultimately, net zero will involve cost increases in the mid-term to purchase things like Renewable Energy Certificates and possibly carbon offsets, as well as increase or accelerate investments in energy efficiency. Potential costs should be evaluated, but more important is to define where these costs would fall within the company's budget, as decarbonization will likely need to go outside the line item of property-level P&L energy cost.

VARIABLE 5 Funding Methods. Funding methods and mechanisms will expand as more companies seek net zero pathways and make commitments. The first and most important action should be to put a process in place to seek out and evaluate of opportunities at various instances of the hotel's asset life cycle.

- 1 Earmarking funds for RECs and carbon offsets.** As part of fiduciary duty, earmarking enables a line item or sub-item in the budget of the hotel or company to be approved for purchase of renewable energy or offsets. This type of purchase may already have been made in hotels that obtained LEED certification in a performance evaluation period where a percentage of electricity was required to be derived from purchased renewable energy.
- 2 Energy efficiency investments based on ROI payback and cost savings.** This method can expand to invest in projects with longer payback / lower ROI thresholds when they reduce carbon, using either informal or formal projections on how carbon emissions will be more costly going forward.
- 3 Performance contracts for equipment and technology.** This is also based on a prospective payback on energy efficiency, but financed with no or little upfront cost, and the fees taken from a vendor that shares a percentage of the savings.
- 4 Green finance.** Lower interest loans or even grants are often available for actions that reduce carbon emissions. PACE funding is an example, and at the corporate level, Green Bonds and Sustainability/ESG loans are options. These can lower the cost of capital and enable installation of renewable energy and changeout of larger capital equipment before end-of-life.
- 5 Deregulated energy auction green tariffs.** In markets where energy is deregulated and reverse auction platforms and other procurement of energy affords choice, requests can be put in for the provider to include a percentage of renewable energy in the tariff and seek to have this come in at a comparable price of energy. In this scenario, no upfront investment is made, and the renewable energy addition is not itemized separately as an expense or investment.
- 6 Sustainability budget from operating revenues.** In this scenario, an internal fund of 0.5% - 1% of revenue can be earmarked as restricted for being used to purchase RECs, offsets, and fund renewable energy.
- 7 Crowdfunding RECs and offsets.** As net zero will likely enable a carbon offset purchased by the guest, travel buyer, or distribution channel to be counted toward the hotel's carbon reduction, opportunities will grow for "crowdfunding" or sourcing the funds indirectly from the traveler or buyer, as well as directly. This can be done at point of reservation and also onsite throughout touchpoints. Processes will need to be put in place to capture and record these purchases consistently as part of the hotel's carbon accounting.
- 8 Carbon offset capital gains.** As carbon credits will be able to be purchased and held on the balance sheet until retired, a strategy can be put in place to hold credits and buy/sell strategically, where gains are then part of the equation to retire offsets as an expense.

10

MODEL AND SET A DECARBONIZATION PATHWAY

The ultimate goal is net zero by 2050. Current performance through 2020 is known. The credibility of the commitment/goal and the ability to implement it managerially will depend on the yardsticks that come in between 2020 and 2050 as outlined in Section 3 of the Net Zero Methodology for Hotels. This pathway is created by applying the model created in earlier steps and inserting in more figures and scenarios which are informed by the previous steps. The pathway will also need to be able to separate out how the results will be influenced by the following factors:

- Portfolio composition changes
- External electric power grid factors
- Energy efficiency
- Renewable energy purchase and installation
- Offsets

11

ESTABLISH A PROCESS FOR MONITORING REGULATORY POLICY, PEER AND OPERATING PARTNERS TRENDS AND CUSTOMER INTEREST

Setting a pathway to net zero will involve constant evaluation of how business and government are decarbonizing in general. As expectations and regulations evolve, portfolio-wide or property-specific triggers may occur that necessitate larger changes or investments. This process will ensure that the drivers are identified and then are able to be discussed within the organization appropriately and in a timely fashion. This step also links closely to risk assessments and disclosures required by, for example, the Task Force on Climate Related Financial Disclosure (TCFD).

12

SET UP OR EMBED A PROCESS OF EVALUATING OPPORTUNITIES ACROSS EACH STAGE OF THE ASSET'S LIFE CYCLE AND BUDGETING

Opportunities can be identified and budgets committed if the asset's decarbonization potential is consistently addressed in the instances of acquisition due diligence (or design/development), annual capital budgeting, larger CAPEX planning, and major renovation.



13

STRUCTURE THE INVENTORY MANAGEMENT PLAN

While calculation methods for annual greenhouse gas (carbon) emissions are fairly straightforward and standardized, the calculation of performance over time of a hospitality real estate portfolio is more nuanced as properties enter and exit the portfolio. The solution is to create an Inventory Management Plan (IMP) that directs how the company sets its boundaries, quantification, metrics, and comparative performance. In most cases, the approach and methodology in the IMP will have standard items for calculation, but for performance over time, it can be determined by the company itself. Issues to be addressed include:

- When to include a property in the boundary that enters the portfolio
- What to do with properties that exit the portfolio prior to target year
- Whether some smaller properties or operations can be excluded from the boundary
- How to deal with renovations that cause temporary closures, and structural renovations that change the footprint of the property
- How to incorporate renewable energy and carbon offset purchases by other parties (operator, brand, customer, distribution channel) so that they can be accounted for
- How to ensure calculation is done correctly and can be externally verified if needed

14

SET THE COMMITMENT

Determinations will need to be made on the specifics of the commitment and the plan, as well as which framework(s) or criteria will be adhered to, such as Race to Zero or the Science-based Targets initiative, and others outlined in Appendix J of the Net Zero Methodology for Hotels. Note some commitments may require more extensive or additional activity depending on the chosen criteria and process. Finally, the commitment will need to be approved at the highest levels.



The processes, commitments, data modeling and methodology will need to be communicated to external stakeholders, and progress toward net-zero communicated routinely. Collectively, all the items in the previous steps will be used to formulate the plan, as well as the ongoing program and related disclosure. General program and process descriptions will need to be developed, as well as content for specific sustainability and ESG disclosures.

Program and process descriptions. Regardless of how the reporting frameworks or specific criteria develop, and even with alignment to a recognized framework and specific quantified targets, for a net zero plan to be credible it will need to have the following components documented and clearly described so that stakeholders can understand:

- “**How are you going to get to net zero?**” – so that it is clear how the strategy is going to deploy the various actions across efficiency, renewables, and offsets.
- “**How are you measuring and calculating the pathway and progress?**” – so that the boundaries and any key assumptions are clear, to avoid criticism or skepticism from lack of transparency.
- “**How are the actions a part of your business model or processes?**” – so that key stakeholders such as investors can visualize how the actions will be incorporated into management processes in practice, including how operators will be engaged.
- “**How does this relate to your company’s climate risk management?**” – so that the interrelation of TCFD and climate risks and scenarios is incorporated holistically, rather than just a commitment to spend and reach a target.

Content for Sustainability/ESG Disclosures. Net zero commitments may require annual progress reporting in some form, at least internally. In addition, an overall plan will need to be prepared in order to respond to stakeholder requests (i.e., Board of Directors, investors, customers, and eventually regulators) as needed. For companies, net zero plans and progress may need to be embedded in the following ESG reporting frameworks:

- **TCFD Disclosure.** TCFD has two specific areas where net zero will occur. First is the disclosure on how the company’s portfolio and business model will adapt to a net zero economy in terms of the structural changes. Second is the reporting of emissions, targets, and progress. Over time, net zero and TCFD disclosures will likely become more interrelated.
- **Corporate Responsibility / Sustainability / ESG Report.** A chunk of the report should be dedicated to net zero, which can be fairly static content over time. Then each year, the report should highlight the progress and key actions undertaken within the reporting year to advance toward the target. Finally, yearly metrics and related methodology descriptions will need to be added to performance tables and others like GRI and SASB. All of this will evolve as ESG ratings and analysts start to add net zero criteria.
- **Other frameworks that the company uses.** Net zero disclosures will be needed for GRESB, CDP, and S&P (formerly RobecoSam’s CSA), and ISS. In most of these cases, the information prepared in the report and TCFD will be able to be repurposed, but some others will require more specific disclosures and documentation (which may not be externally disclosed but sent to the framework for review).
- **Frameworks specific to net zero and climate action.** If going the route of SBTi, the company likely will need to have the plan and performance validated, and to report on progress at some intervals. For signatories of the Glasgow Declaration, the net zero plan can form a large part of the Climate Action Plan. Further net zero reporting frameworks as well as specific customer survey requests may emerge as companies set net zero targets and then require or encourage suppliers to do so.



ABOUT US



Greenview is the world's leading provider of sustainability programs and data management for the hospitality and tourism sector. Greenview supports dozens of companies to design, implement, and monitor their corporate responsibility and sustainability platforms to drive profitability, streamline data, keep ahead of trends, and provide effective communication for stakeholders. Greenview has developed industry methodologies for carbon, waste and plastics measurement.



Pacific Asia Tourism Association (PATA) is a not-for-profit membership-based association that acts as a catalyst for the responsible development of travel and tourism to, from and within the Asia Pacific region. By bringing together private and public sector members, PATA facilitates meaningful partnerships to enhance the value, quality, and sustainable growth of travel and tourism to, from and within the Asia Pacific region.



Sustainable Hospitality Alliance (the Alliance) brings together engaged hospitality companies and uses the collective power of the industry to deliver impact locally and on a global scale. They work with leading hospitality companies and strategic partners to address key challenges affecting our planet and its people, and develop practical resources and programs to enable the wider industry to operate responsibly and grow sustainably.



World Travel & Tourism Council (WTTC) is the global authority on the economic and social contribution of Travel & Tourism. WTTC promotes sustainable growth for the Travel & Tourism sector, working with governments and international institutions to create jobs, to drive exports, and to generate prosperity. Council Members are the Chairs, Presidents and Chief Executives of the world's leading private-sector Travel & Tourism businesses.

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