MAKING THE MOST OF CDP CLIMATE CHANGE

Guidance on how to streamline the CDP response process and improve your submission

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What is CDP and the climate change program?

CDP is an international non-profit organization that is working to transform the way companies respond to the issues of climate change and natural resource degradation. Backed by 822 institutional investors with $95 trillion in assets under management during the 2015 disclosure cycle, CDP holds the largest collection of company reported climate change, forest, and water data in the world, resulting from information requests sent by the organization to thousands of companies each year.

CDP’s climate change program (found on CDP’s website) is the most prominent of the organization’s many initiatives. Each year, CDP requests information on climate change policies and practices from the largest global companies: in 2014, over 5,000 companies responded to the CDP questionnaire including 83% of the Global 500 and 70% of the S&P 500. This level of engagement by the world’s leading companies is recognition that stakeholders, and in particular investors, are interested in climate change as a business issue. Similar to the climate change program, CDP’s Cities program offers an opportunity for municipalities to report on climate change activities.

CDP also manages programs focused on addressing exposure to deforestation risk (Forests), mitigating environmental risk in the supply chain (Supply Chain), and driving sustainable water use (Water). In addition, CDP manages Carbon Action, an investor-led initiative to accelerate company action on emission reduction activities that deliver a satisfactory return on investment. CDP’s website provides additional information on these programs.

What does responding to the climate change questionnaire involve?

Early each calendar year, CDP sends the climate change information request (or “questionnaire”) to the largest global companies, and respondents have until the end of June to submit a response. Companies that do not receive a questionnaire directly from CDP are also encouraged by the organization to respond given interest in company responses by a broad stakeholder base. (The 2015 questionnaire can be found on CDP’s website).

Companies are asked to respond to the annual questionnaire using CDP’s Online Response System (ORS); the questionnaire requests qualitative and quantitative information on company greenhouse gas (GHG) emissions, performance trends, goals for reducing emissions over time, internal governance practices, assessment of climate change risks and opportunities, and strategies for addressing identified risks and opportunities. Before submitting a response, companies can decide whether to make their questionnaire available to the general public: 90% in the S&P 500 allowed public access to their responses in 2014. Each summer, company responses are then scored for both disclosure and performance using a published scoring methodology, and scores are released for most companies in September. Disclosure scores assess companies on the quality of disclosure; performance scores assess the positive actions related to climate change that companies have documented in their response. In 2014, the top companies in each sector were listed on the Carbon Disclosure Leadership Index (CDLI) and the Carbon Performance Leadership Index (CPLI), available on CDP’s website. While disclosure was the initial focus of the climate change questionnaire, as companies have improved their disclosure in recent years, there has been increasing emphasis in performance improvement, and many companies have publicized both significant GHG emissions reductions and innovations in products and services that mitigate climate risk. In 2015, the term “CPLI” will no longer be used as it has been; instead companies who achieve a score in the top performance band (A) will be referred to as “A list” companies.

Optimizing the climate change reporting process

While CDP allows invited companies several months to submit the climate change questionnaire and provides considerable guidance on how best to respond, the process remains challenging for many organizations. To streamline reporting, we recommend that all responding companies consider the following suggestions when preparing a response.

Do your homework

If your company responded to the climate change questionnaire in 2014, request specific feedback from CDP on your company’s response and how you can improve.

Familiarize yourself with the questionnaire, the guidance offered by CDP, and the provided scoring methodology, including any changes since last year. There is no need to wait until you receive the questionnaire from CDP; documents are typically available on CDP’s website in January, before the questionnaire is sent to companies.

Review responses from other companies in your sector, and provide these to internal stakeholders to help them understand what is expected from your organization.

Plan carefully

Once you have received the questionnaire, review the document and consider the following questions. What internal stakeholders should support your company’s response? Is additional work needed before writing your response? Is your organization comfortable making your response public? Is external support needed? In our experience, having answers to these questions before beginning your response will streamline the process and lead to a better outcome.

While planning, we suggest allowing ample time to develop your response, including time for internal reviews and verification of GHG data, particularly if this is the first year your company has responded to the questionnaire. Many organizations mobilize their response effort as soon as the questionnaire is made available on CDP’s website.

Many organizations treat the CDP reporting process as a project, forming a cross-functional team, preparing a workplan, establishing regular status meetings, and enforcing project milestones. Many teams include representatives from a range of business functions including sustainability, facilities, transportation, procurement, risk, legal, finance, and marketing and communications.

Use time and resources wisely

Respondents are able to download an editable version of the climate change questionnaire from CDP’s website (see the climate change drafting document here); this document is useful for capturing and managing input from multiple contributors. As you complete the questionnaire offline, it is also helpful to have the ORS tool accessible so you know exactly what is being asked for each question. Be cognizant of character limits for individual questions, so you are not faced with reducing the length of your responses at the last minute.
We suggest providing as much detail as possible for each question, including company-specific information in the form of case studies and examples. The internal review process will likely reduce the content you are able to report, so start with more rather than less.

We also suggest that respondents address each question individually, because the response to each question is scored separately, cross-referencing answers to other questions is not advised. While duplicating certain information may seem inefficient, from the perspective of CDP, it allows each question to be evaluated properly.

Finally, it is helpful to update some components of your CDP response (such as your organization’s GHG emissions inventory) on a quarterly or semiannual basis, rather than scrambling to complete specific content as the June reporting deadline approaches. Completing your annual inventory and verification as early as possible will allow sufficient time for quality review and to investigate material changes in emissions when compared with previous years, and updating your inventory throughout the year makes this easier.

Leverage your experience
For many companies, a CDP response is not only an external communications tool but also a means to drive internal change. Company CDP scores are increasingly discussed in traditional financial circles (scores now appear at every Bloomberg terminal), and CDP has become top-of-mind with many executives concerned about their company’s position in sustainability and climate change rankings and ratings. As someone responsible for your organization’s climate change strategy, CDP can be a vehicle to engage company decision-makers and educate the broader employee base on the importance (and value) of being proactive with regard to climate change risks and opportunities. While CDP is simply a structure to allow companies to disclose their climate change activities, it can also be a driver for business change given what may be identified as priority actions during the reporting process.

Opportunities for an improved climate change response
CDP focuses considerable effort each year to review and improve the questions asked of companies in its annual information request. However, in 2015, as in the past several years, CDP has adopted a minimum change approach, retaining the overall format of the questionnaire and updating only a limited number of questions. Generally, these changes are focused on clarifying questionnaire guidance, reducing the amount of information required in free text responses, and minimizing the overall reporting burden. In some cases, additional information is also requested of responding companies. Some aspects of the questionnaire that have changed more significantly include:

- Increased emphasis on performance related to risks and opportunities (CC5.1, CC6.1). In 2015, the number of performance points available for these questions has increased three-fold.
- Increased emphasis on performance related to Scope 1 and 2 verification. For full performance points and eligibility for inclusion in the “A list”, at least 70% of Scope 1 and 70% of Scope 2 emissions must be verified and any exclusions identified in CC8.4 must be either be designated as “Emissions are not relevant” or “Emissions excluded due to a recent acquisition.”
- Increased emphasis on Sign off (CC15.1). Previously this question was not scored for performance. For 2015, there are 2 performance points available.

Over the past several years, responding companies have continued to focus intently on the quality of their submissions, both by expanding their responses to address changes made from the previous year and by refining responses to specific questions that have not changed. As disclosure scores continuously increase across all sectors, there is less room for improvement in this area, and we expect increasing interest in improvement to performance scoring. To date, the performance score has included aspects such as:

- Board-level oversight for climate change performance
- Existence of staff monetary incentives towards improved climate change performance
- Integration of climate change risks and opportunities into overall business strategy
- Implementation of emission reduction targets
- Achievement of annual absolute and intensity-based emission reductions resulting from emission reduction activities
- Verification or assurance of at least 70% of Scope 1 and 70% of Scope 2 emissions data; verification of any Scope 3 data
- CDP submittal sign off by senior management

Table 1 identifies sections of the climate change questionnaire in which companies may find the greatest opportunity to increase disclosure and performance scores in 2015.

What else is new for the climate change program?
CDP is continuing to move toward a more sector-focused approach in its requests of responding companies. This approach allows CDP to produce sector-oriented reports, target its reporting guidance, conduct more detailed benchmarking, and ensure that companies are being asked the most appropriate questions about their activities and performance. As the sector approach evolves, CDP anticipates that the reporting burden will decrease for individual companies as they provide only the most important information to investors.

In 2015, CDP will circulate five sector-specific modules: Oil & Gas, Electric Utilities, Auto & Auto Component Manufacturers, Information and Communications Technology, and Food, Beverage & Tobacco, available here. Questions in these modules are not scored, and CDP encourages companies to respond to as many relevant questions as possible so the modules can be improved for the subsequent reporting year.

In 2016, CDP will expand renewable energy reporting, and will include questions on related Scope 2 data and targets. CDP will also introduce questions related to science-based targets. Last, CDP has indicated that they will add quality criteria to the verification/assurance evaluation.
increasingly focused on collective risks and opportunities. Since 2009 demonstrates that companies, and suppliers, are engaged in areas. The growth in participation in the supply chain program has been significant from 715 in 2009. In 2015, 75 companies have requested that CDP distribute the forests questionnaire to companies that have high significance in the management of five ‘forest risk’ commodities: timber products, palm oil, soy, cattle products, and biofuels. Last year, CDP distributed the forests questionnaire to companies that have the greatest operational or supply chain risk associated with the five ‘forest risk’ commodities. Approximately 160 companies responded in 2014.

With participation from 66 companies, the supply chain program received 3,396 responses to the supply chain questionnaire in 2014, up from 715 in 2009. In 2015, 75 companies have requested that 7,700 suppliers respond to the questionnaire. The program simplifies the process of requesting climate change and water-related information from suppliers so that companies can better engage their supply chain partners on making improvements in these areas. The growth in participation in the supply chain program since 2009 demonstrates that companies, and suppliers, are increasingly focused on collective risks and opportunities.

The water program, launched in 2010, initially targeted select companies in water-intensive sectors such as chemicals, pharmaceuticals, construction, and utilities; however, it has since expanded its scope. In 2014, the water program targeted a larger number of companies in the Global 500, S&P 500, FTSE 100, ASX 100, and JSE 100. In the five years since its inception, the water program has not scored company responses, though this year CDP announced that it will score all companies invited to respond. 2015 scores will be shared with both responding companies and investor signatories, but will not be made publicly available.

In 2011, CDP launched Carbon Action, a program that encourages companies to report emissions and take action to reduce their emissions. In the program’s inaugural year, CDP targeted companies in high emitting industries and those in industries with potentially significant supply chain emissions. In 2015, the Carbon Action request was sent to over 1,300 companies across 17 high emitting sectors. Each year, companies are asked to publicly report emissions, carbon reduction targets and ROI-positive investments in projects while demonstrating progress via carbon reduction and energy efficiency activities. Carbon Action is additional and complementary to the climate change program.

In addition to diversifying, CDP has further strengthened its existing programs, with the goal of helping companies improve reporting and ultimately management of climate change, water, and other issues. CDP continues to increase the guidance available on its website for responding companies and has established a number of partnerships with software and consulting providers to offer high-quality assistance to companies interested in improving reporting and management processes. Given these improvements, CDP will likely increase its prominence in the coming years.

### How is the CDP program evolving?

As CDP has matured as an organization, it has also diversified its offerings. The climate change program is now complemented by programs focused on forests, supply chain, and water, in addition to climate-change related programs targeted at municipal respondents (cities) and companies in high-emitting sectors (Carbon Action). The cities program is very similar to the climate change program though is tailored to municipal rather than corporate respondents.

In 2012, CDP launched its forests program, which now represents support from 298 investors with US$19 trillion in assets under management. The forests program helps companies understand and address exposure to deforestation through disclosure on the management of five ‘forest risk’ commodities: timber products, palm oil, soy, cattle products, and biofuels. Last year, CDP distributed the forests questionnaire to companies that have the greatest operational or supply chain risk associated with the five ‘forest risk’ commodities. Approximately 160 companies responded in 2014.

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### Table 1: Opportunities to improve scores in 2015

<table>
<thead>
<tr>
<th>Section and Question Number</th>
<th>Opportunity</th>
<th>Level of Impact</th>
<th>Level of Effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy (CC2.2a)</td>
<td>PROVIDE AT LEAST ONE EXAMPLE SHOWING HOW THE BUSINESS STRATEGY HAS BEEN INFLUENCED</td>
<td>MEDIUM</td>
<td>LOW</td>
</tr>
<tr>
<td></td>
<td>PROVIDE AT LEAST ONE EXAMPLE SHOWING WHAT HAS BEEN THE MOST SUBSTANTIAL BUSINESS DECISION MADE IN THE REPORTING YEAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Climate Change Risks and Opportunities (CC5.1, CC6.1)</td>
<td>PROVIDE A CLEAR DESCRIPTION OF THE RISK/OPPORTUNITY THAT IS SPECIFIC TO THE ORGANIZATION</td>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td></td>
<td>PROVIDE EXAMPLES OF METHODS (IN THE IMPLEMENTATION PHASE) USED TO MANAGE RISKS AND OPPORTUNITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PROVIDE SPECIFIC DATA POINTS FOR FINANCIAL IMPLICATIONS AND COSTS OF MANAGEMENT; A QUANTITATIVE RANGE IS SUFFICIENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Verification or Assurance – Scope 1 and 2 (CC8.6, CC8.7)</td>
<td>VERIFY 70% OF SCOPE 1 AND 70% OF 2 EMISSIONS (THIS IS A prereq for inclusion in the ‘A list’; in 2014, 54% of S&amp;P 500 respondents indicated that Scope 1 and 2 emissions had been verified)</td>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>Emissions Performance – Absolute (CC12.1)</td>
<td>PROVIDE A DIRECT LINK BETWEEN EMISSIONS REDUCTIONS AND SPECIFIC EMISSIONS REDUCTIONS</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>ACTIVITIES; PERFORMANCE POINTS AWARDED ARE SCALLED BASED ON LEVEL OF ACHIEVEMENT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emissions Performance – Intensity (CC12.2, CC12.3, CC12.4)</td>
<td>PROVIDE A DIRECT LINK BETWEEN EMISSIONS REDUCTIONS AND SPECIFIC EMISSIONS REDUCTION ACTIVITIES; PERFORMANCE POINTS AWARDED ARE SCALLED BASED ON LEVEL OF ACHIEVEMENT</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>Scope 3 Emissions Accounting (CC14.1)</td>
<td>PROVIDE EMISSIONS FOR ALL 15 SCOPE 3 CATEGORIES, AS DEFINED BY THE GHG PROTOCOL SCOPE 3 STANDARD</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>External Verification or Assurance – Scope 3 (CC14.2)</td>
<td>VERIFY SCOPE 3 EMISSIONS (THIS IS ALSO A prereq for inclusion in the ‘A list’; in 2014, 38% of S&amp;P 500 respondents indicated that Scope 3 emissions had been verified)</td>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>Sign off (CC15.1)</td>
<td>SECURE SIGN OFF OF CDP SUBMISSION BY A SENIOR EXECUTIVE</td>
<td>MEDIUM</td>
<td>LOW</td>
</tr>
</tbody>
</table>
WSP AND CDP

In 2015, WSP was named a CDP climate change consultancy partner in the US for a fifth year and is one of two partners in the US for the inaugural year of CDP’s water consultancy program. As an accredited partner, WSP is committed to working alongside CDP to support high-quality disclosure of climate change information from companies across the globe. In this role, WSP advises CDP on its programs and provides guidance and support to CDP respondents through CDP-sponsored webinars, presentations at live events, white papers, and other media. WSP is a proud respondent to both the climate change and supply chain questionnaires and in 2014 was named to the CDLI for its climate change response.

WSP has provided direct support to over 100 clients in developing GHG emission inventories, and has helped clients prepare responses to CDP’s information requests since CDP’s inception. WSP’s clients responding to the climate change questionnaire include several leading companies across sectors. In 2014, the average disclosure score of WSP’s US-based clients responding to the climate change questionnaire was 94 while the average disclosure score for the S&P 500 was 79. Additionally, WSP has provided CDP or related support to over 20 companies listed on one or both of the CDLI and CPLI indices.

ABOUT WSP

WSP and Parsons Brinckerhoff have combined and are now one of the world’s leading engineering professional services consulting firms. Together we provide services to transform the built environment and restore the natural environment, and our expertise ranges from environmental remediation to urban planning, from engineering iconic buildings to designing sustainable transport networks, and from developing the energy sources of the future to enabling new ways of extracting essential resources. We have approximately 32,000 employees, including engineers, technicians, scientists, architects, planners, surveyors, program and construction management professionals, and various environmental experts. We are based in more than 500 offices across 39 countries worldwide. Find out more at www.wspgroup.com/usa.

At WSP, we work closely with our clients to shape strategic and sustainable approaches to improving business performance and reporting in a carbon-conscious economy. We help our clients to quantify and report GHG emissions and to identify, evaluate, and implement cost-effective means to achieve GHG reductions. We also assist our clients in participating in voluntary GHG management programs and complying with mandatory GHG regulations. Our GHG management team has a proven track record with numerous companies, many of which we have worked with for several years. We have been providing related services since 1995 and have assisted over 100 clients develop GHG inventories.

WSP’s GHG management services are complemented by technical capability in sustainable energy, climate preparedness, and sustainability strategy, positioning us to manage a diverse array of sustainability issues for clients across sectors. Investigate our sustainability and energy capabilities at www.wspgroup.com/sustain.

For more information on responding to CDP or WSP’s services, please contact our team.

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