

Integrating Energy (50001) & Environmental (14001) for Corporate Sustainability

CIBO Q1 EE Meeting
Mike Zebell, P.E.
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The business of sustainability



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- Predominant Sustainability Reporting Frameworks
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“The important frameworks have the scale and public awareness to drive management attention and dedicate resources to addressing their questions and ensuring that our policies and strategies cover their focus areas.”

“1/5 of global emissions are now managed through CDP, as reported by companies who represent over half the global market cap.”

Context

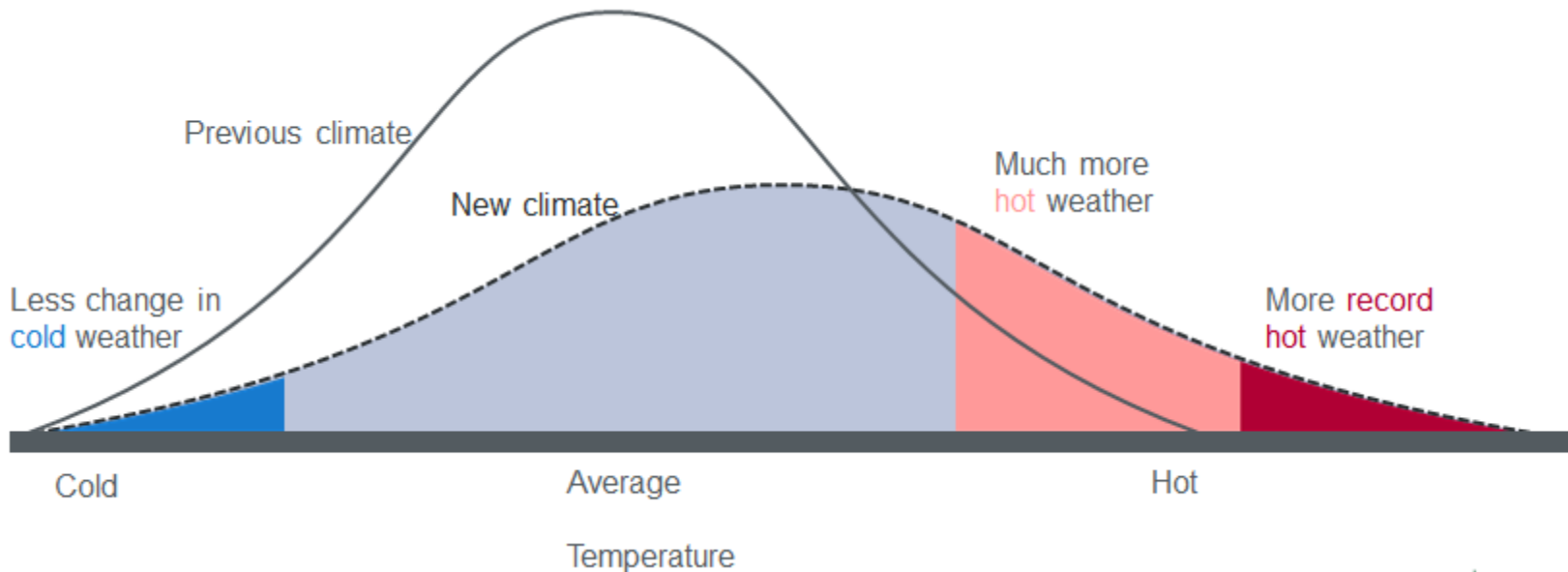


Sustainable Development

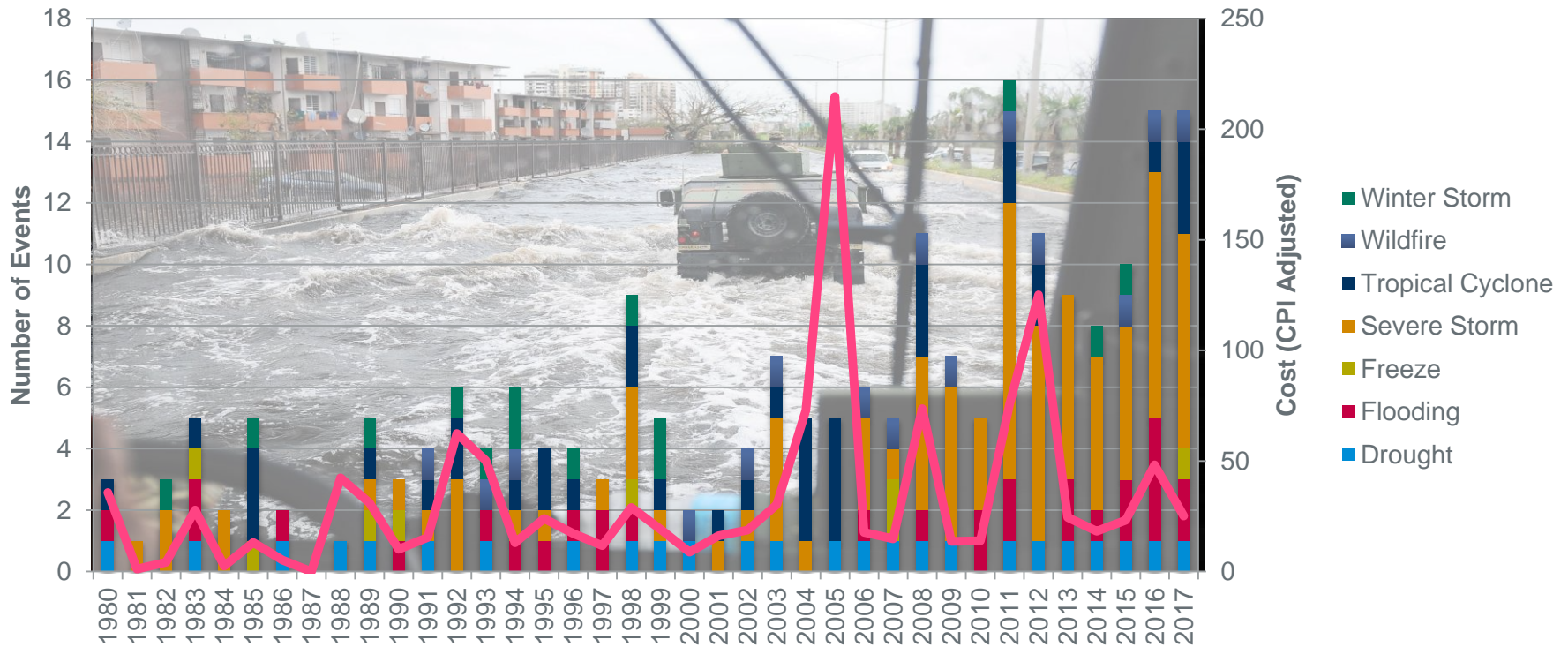


Starting with the Science

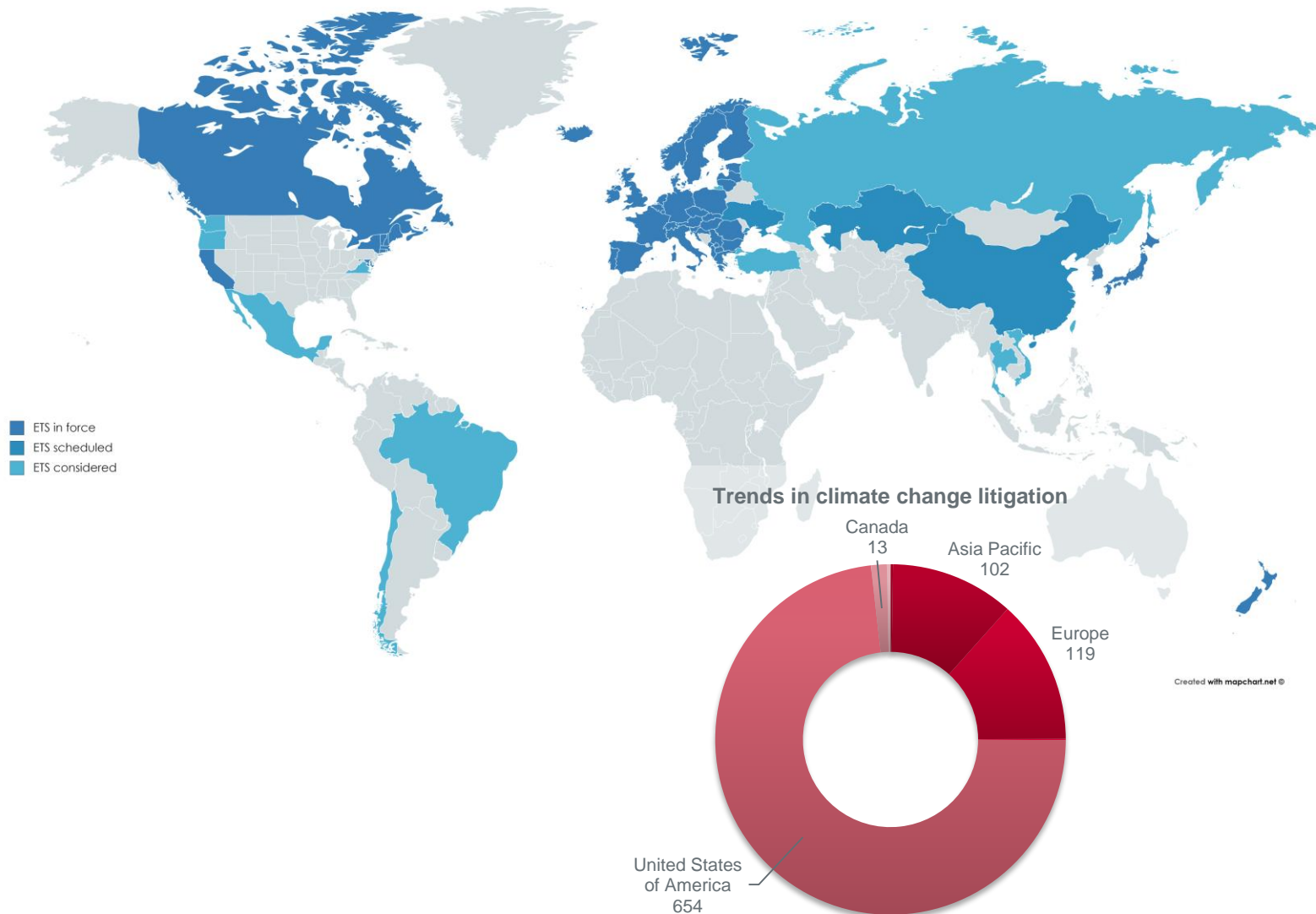
Increase in average temperature and variance



Existing US Weather/ Climate Related Impacts



Government Engagement



Shareholder Resolutions (climate, 2°C)

Driving organizations?

Wespath Benefits
and Investments



New York State
Comptroller



ExxonMobil

Other notables



AS YOU SOW



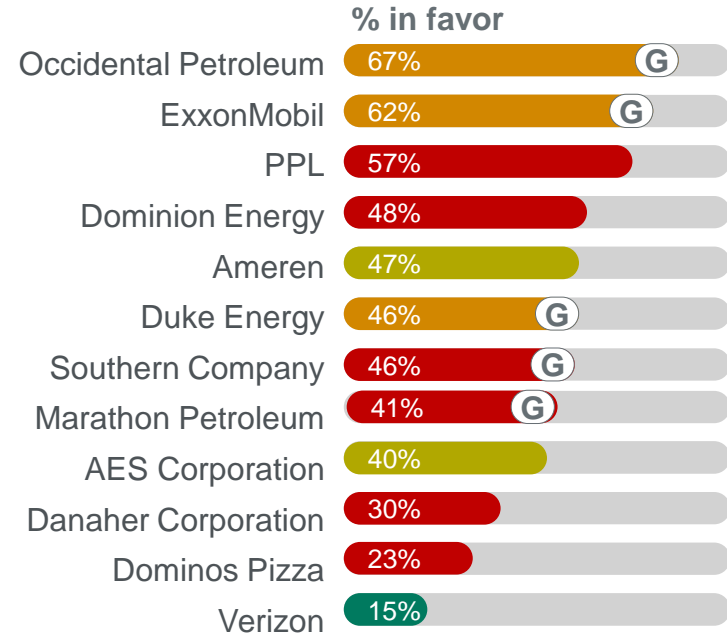
CalPERS

New support from
major asset
managers is acting
as game changer

BLACKROCK



Vanguard®



CDP Score (Proxy for CC maturity)

● A- ● B ● C ● D ● F

G Global 100

Ongoing Engagement

NGO rating

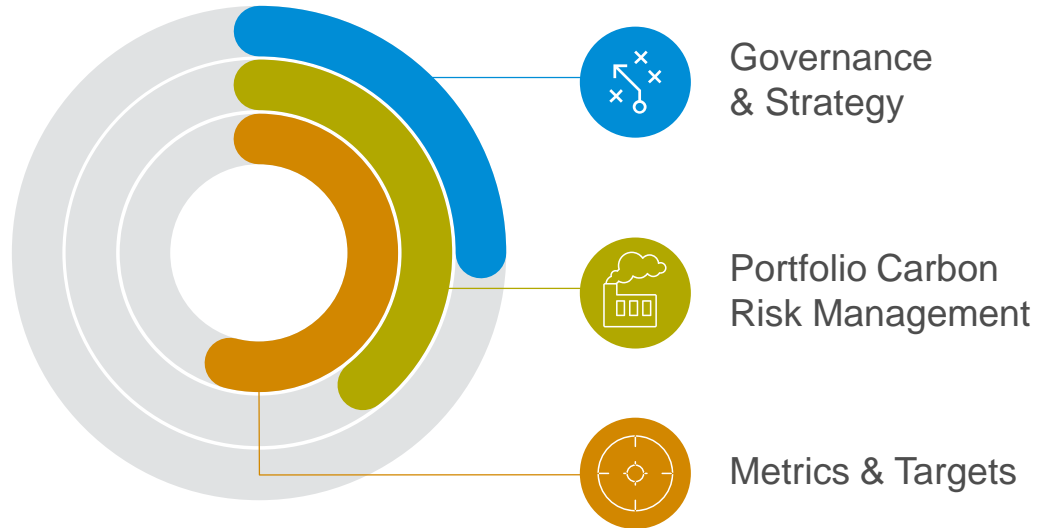
500 + 50

world's largest
asset owners

largest asset
managers

climate risk management
in their portfolios

Scored on capabilities aligning
with CDP key areas



68% of asset owners have staff who are responsible for including climate change considerations in the investment decision making.



70% of Asset managers have a voting policy covering environmental issues, with 20% explicitly stating support for climate change resolutions, usually centered on disclosure and reporting. The other 50% consider climate resolutions on a case by case basis.



ISO 50001 & 14001

International standard for management systems related to –

ISO 14001 Environmental

ISO 50001 Energy Efficiency

Other ISO standards for various areas of corporate governance.

Advantage

ISO standards are auditable and can be certified through third-party verification

Can simplify communication concerning corporate commitment to managing internal and external costs and risk

Compliment standardized sustainability management and reporting

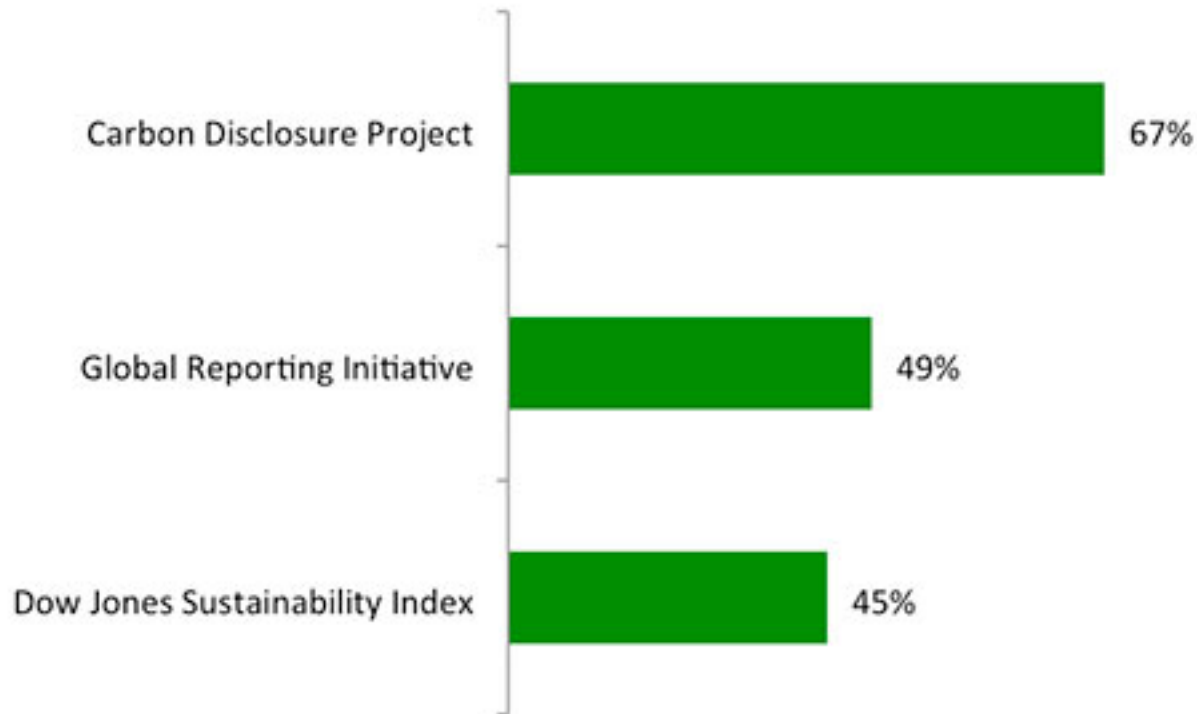
Will talk further about sustainability management and reporting.

Predominant Sustainability Reporting Frameworks



The Big Three

When companies that have sustainability programs are asked to rank
The value of sustainability frameworks.



Carbon Disclosure Project

- Global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts

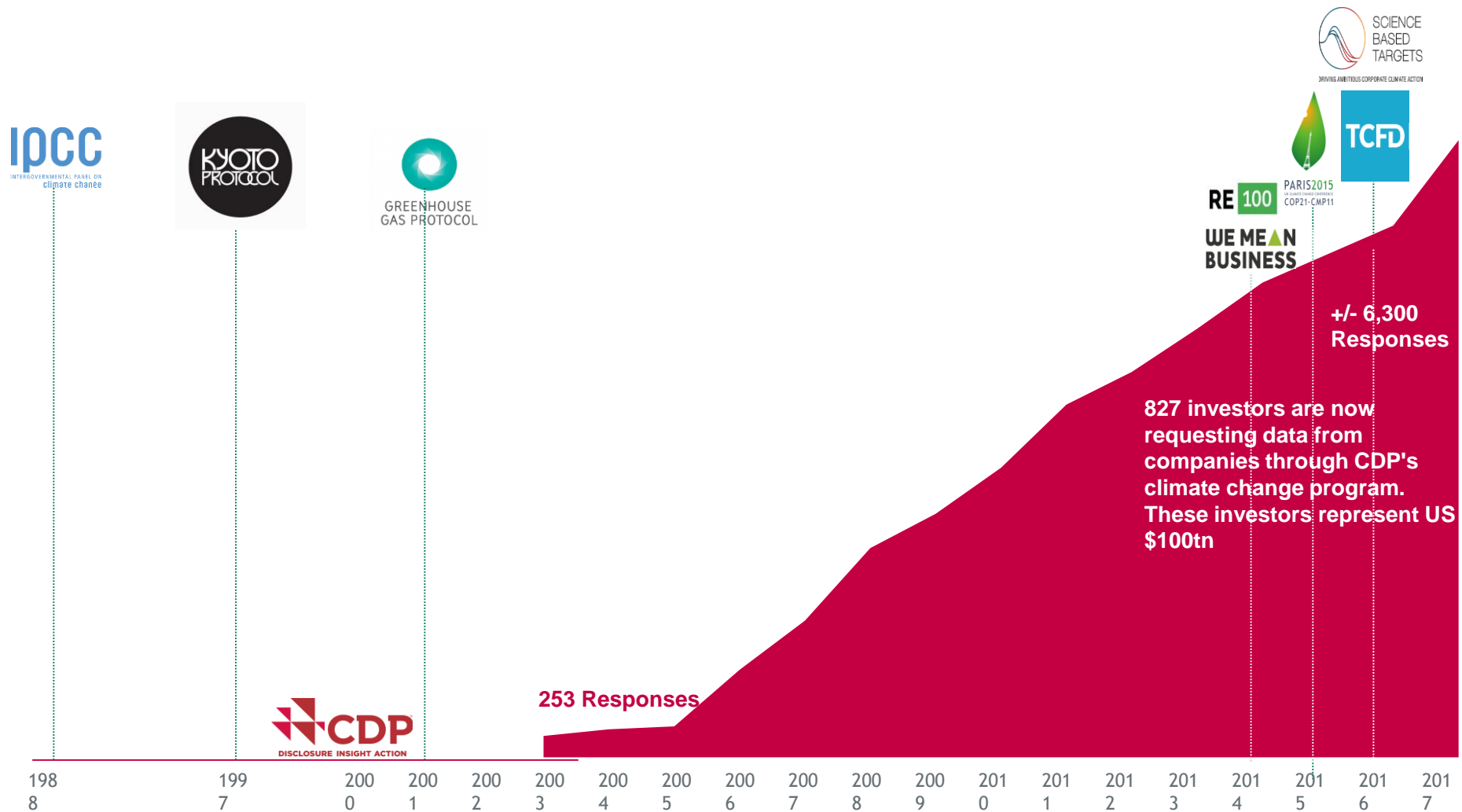
Global Reporting Initiative

- Global standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption

Dow Jones Sustainability Index

- A family of indices evaluating the sustainability performance of publicly traded companies
- Strategic partner of the S&P Dow Jones Indices

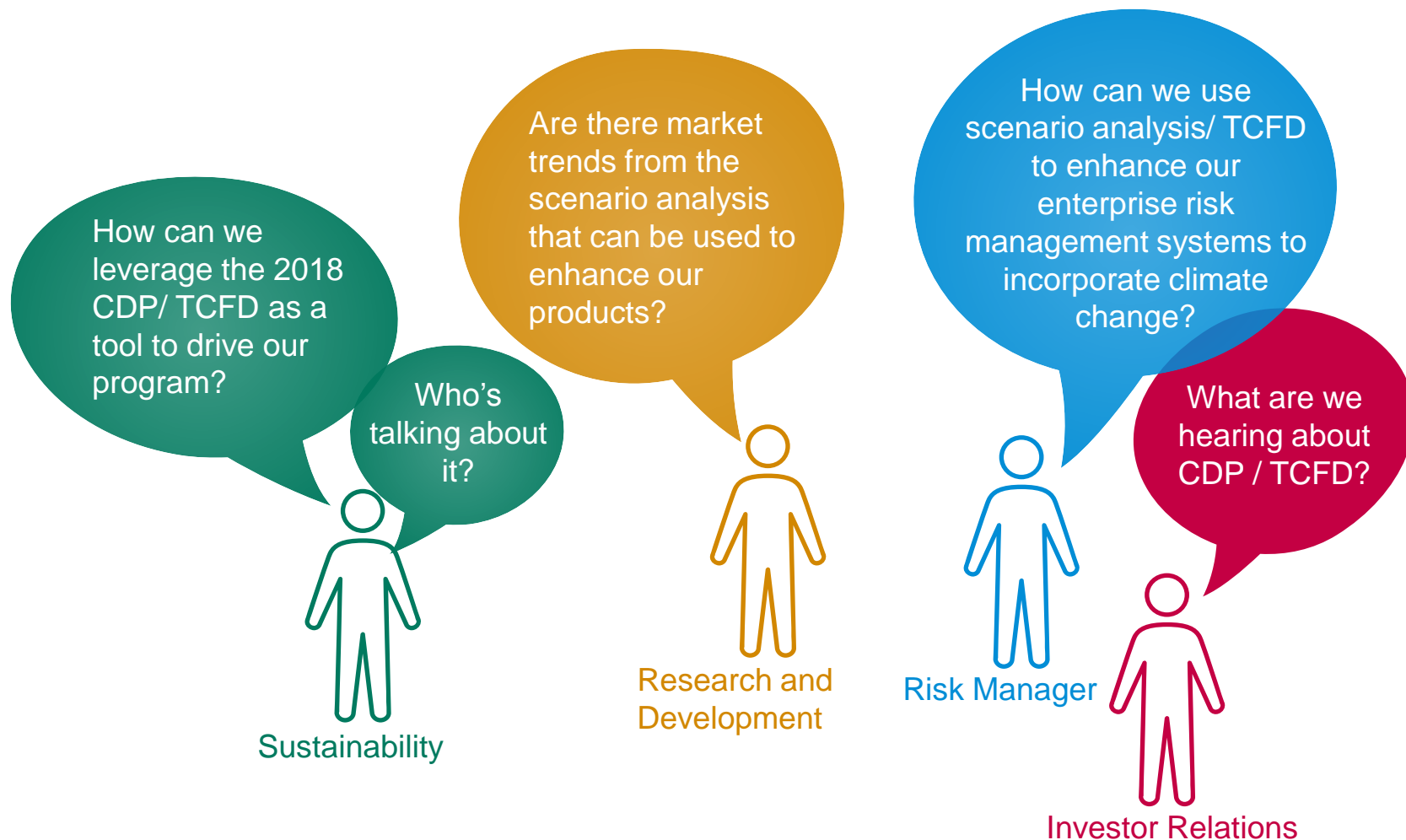
Growth in CDP...



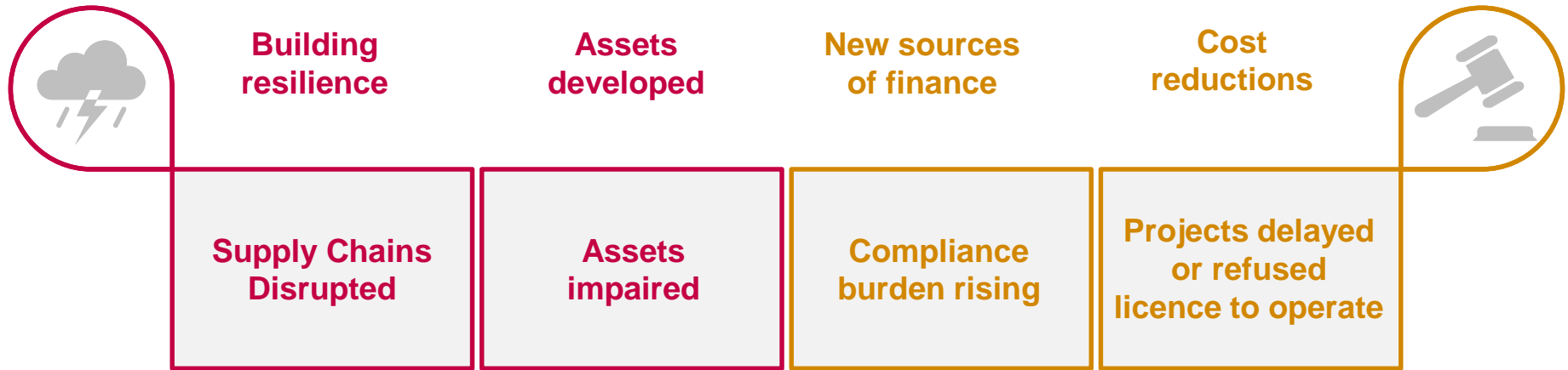
Insights



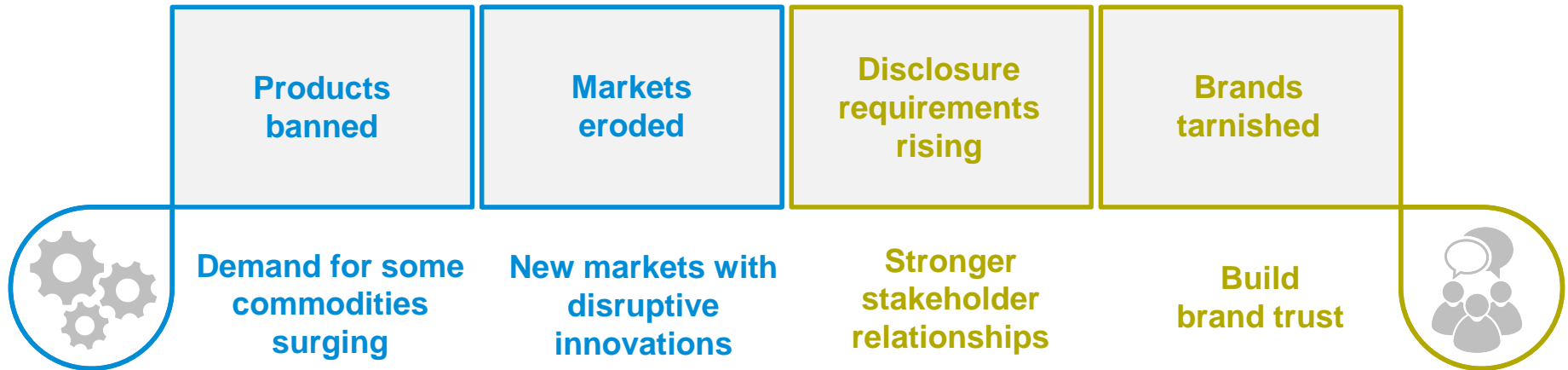
Engaging Internal Stakeholders



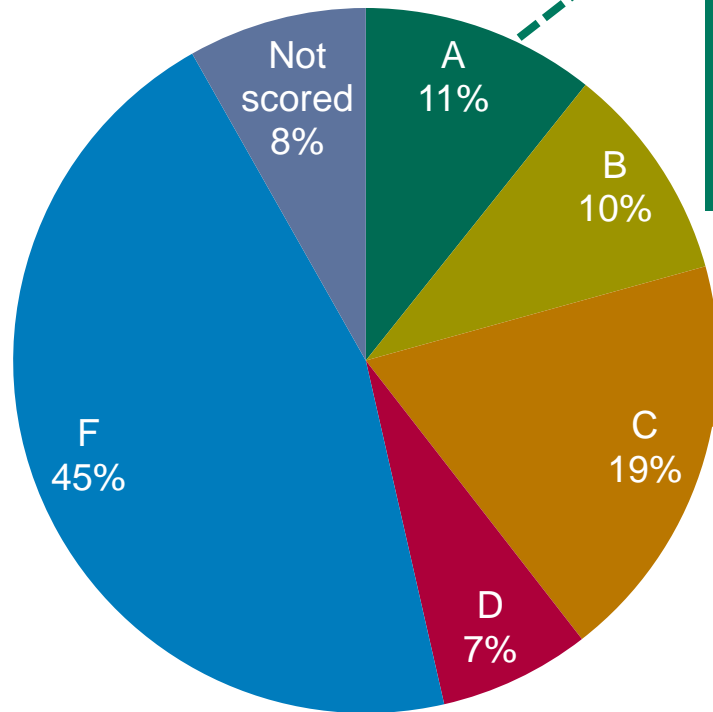
Business Risk



Business risks and opportunities are growing



Key 2017 USA CDP Stats



18 USA companies of 112 worldwide received A scores

- Adobe, Biogen, B of A, Colgate, HP, Las Vegas Sands, The Mosaic Company and Waste Management

No energy, utilities, real estate or telecommunications services made the A list

S&P 500 and Carbon Action Average for:

- Overall
- Emissions management
- Governance and strategy
- Risks and opportunities

Interpreting an A - Leadership

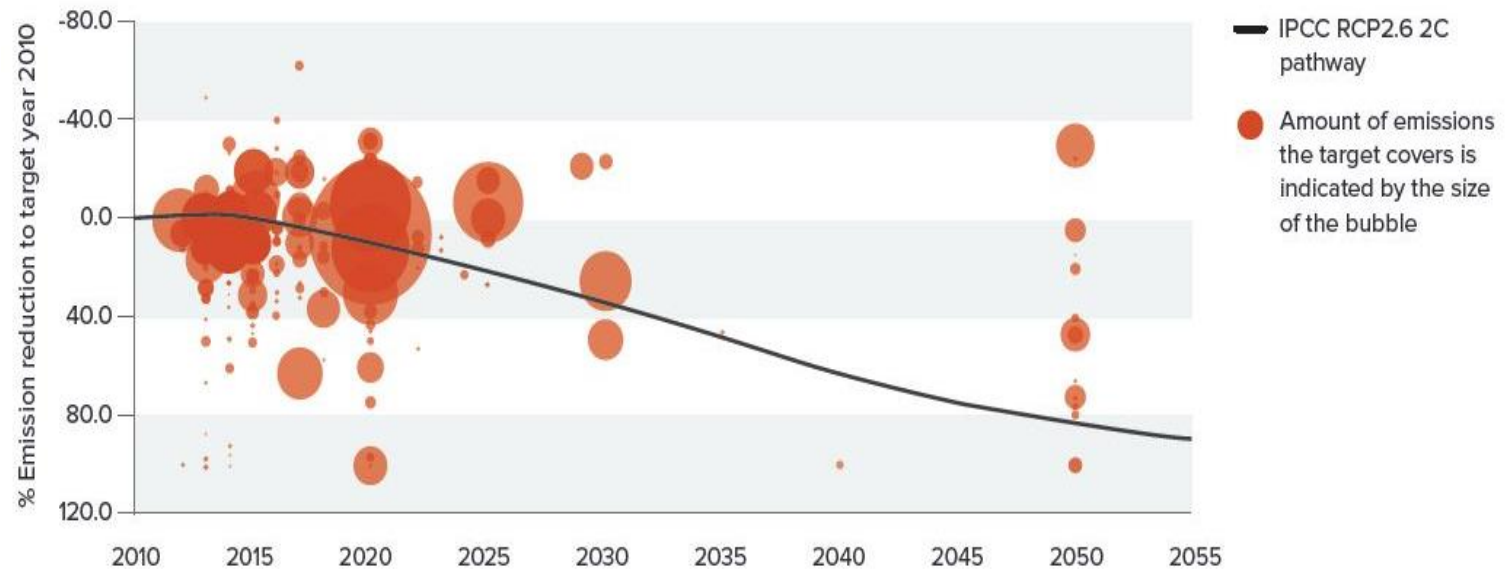
Baseline Expectations

- Governance
 - Broad engagement on climate change from employees with Board oversight
- Business strategy incorporates climate change
 - Programs to ensure consistency
- Goals and targets

Emerging Areas

- Emissions reductions
- Adoption of science based targets
- Use of internal carbon prices
- Uptake of renewable energy
- Low carbon products and services
- Value chain engagement

Focus on Targets



Since officially launching in June 2015, through November 2017:

355

Companies have formally joined the Science Based Target initiative (SBTi)

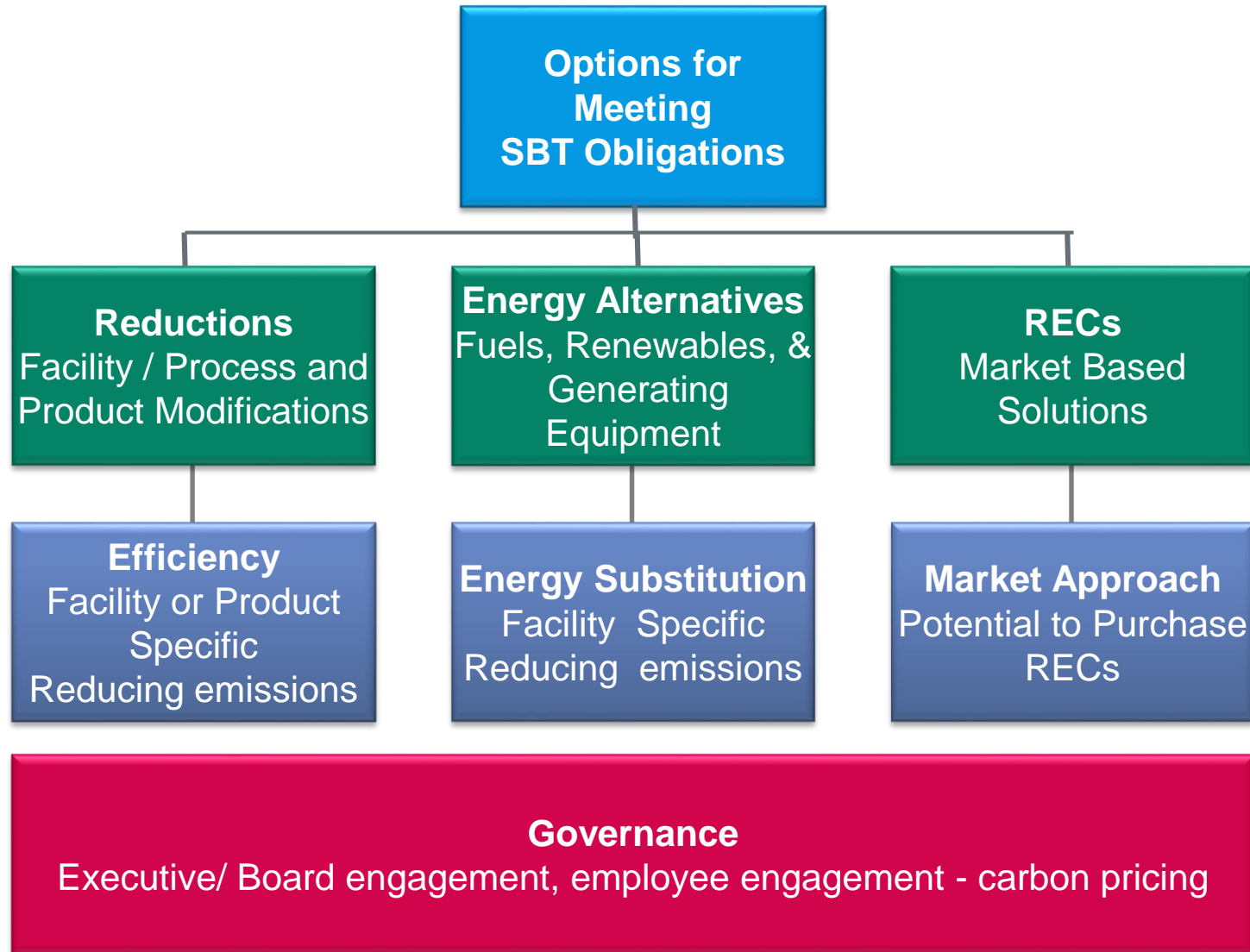
73

Companies have approved targets

~3.5

Companies join the initiative on average every week

To Drive Reductions



Changes to CDP



Proposed Changes



Sector specific questionnaires for agriculture, materials, energy, and transport have been proposed. Questions will be tailored to the industry sector and integrated into the questionnaire – not a separate module.



There will also be new or modified questions as well as changes to the questionnaires to further align them with other frameworks such as DJSI, SASB, GRI, etc., as well as, industry specific frameworks.



For companies not receiving a sector specific module, the general questionnaire has been streamlined and is much shorter.



To streamline the process for first time reporters – CDP is introducing a Minimum tier questionnaire.



That said, the CDP has modified and added new questions to align with the Task Force on Climate-related Financial Disclosure's (TCFD).



The changes to the questionnaire are still being finalized so – there are potentially more shifts to come.

SASB = Sustainability Accounting Standards Board is a US non-profit organization charged with development and dissemination of sustainability accounting standards

Sector Questionnaires

Sectors introduced in 2018 include:

Agriculture

- Agricultural commodities
- Food, beverage & tobacco
- Paper & forestry

Energy

- Coal
- Electric utilities
- Oil & gas

Materials

- Cement
- Chemicals
- Metals & mining
- Steel

Transport

- Transport services
- Transport vehicle manufacturers

Companies outside of these sectors will receive a general questionnaire, as in previous years. Further sectors will be introduced in 2019.

General Questionnaire (proposed)

	2017	2018
1	Governance	Governance
2	Strategy	Risk & Opportunity management
3	Targets and initiatives	Strategy and Scenario Analysis
4	Communications	Targets and Performance
5	Climate Change Risks	Metrics
6	Climate Change Opportunities	Carbon pricing & trading
7	Emissions Methodology	Engagement
8	Emissions Data	Signoff
9	Scope 1 Emissions Breakdown	
10	Scope 2 Emissions Breakdown	
11	Energy	
12	Emissions Performance	
13	Emissions Trading	
14	Scope 3	
15	Signoff	

2018 CDP - Reimaging Disclosure



CDP is integrating the TCFD recommendations into **the 2018** questionnaire as part of the **reimaging disclosure** process



TCFD task force members represented **users and preparers** of disclosures across economic sectors and financial markets



The TCFD final recommendations report was published in 2017



TCFD developed a **set of recommendations** for **voluntary climate-related financial disclosures** that provide decision-useful information for lenders, insurers, investors

Figure 1
Climate-Related Risks, Opportunities, and Financial Impact



TCFD Core Recommendations

Figure 3

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.</p>
<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>b) Describe the organization's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organization's businesses, strategy, and financial planning.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>

TCFD Process

1 Ensure governance

Integrate scenario analysis into strategic planning and/or enterprise risk management frameworks. Assign oversight to relevant board committees/ sub-committees. Identify which internal (and external) stakeholders to involve, and how.

2 Assess materiality of climate-related risks

Market and Technology Shifts

Reputation

Policy and Legal

Physical Risks

What are the current and anticipated organizational exposures to climate-related risks and opportunities? Do these have the potential to be material in the future? Are organizational stakeholders concerned?

3 Identify and define range of scenarios

Transition Risk Scenarios

Physical Risk Scenarios

What scenarios (and narratives) are appropriate, given the exposures? Consider input parameters, assumptions, and analytical choices. What reference scenario(s) should be used?

4 Evaluate business impacts

Impact on:

- Input costs
- Operating costs
- Revenues
- Supply chain
- Business interruption
- Timing

Evaluate the potential effects on the organization's strategic and financial position under each of the defined scenarios. Identify key sensitivities.

5 Identify potential responses

Responses might include:

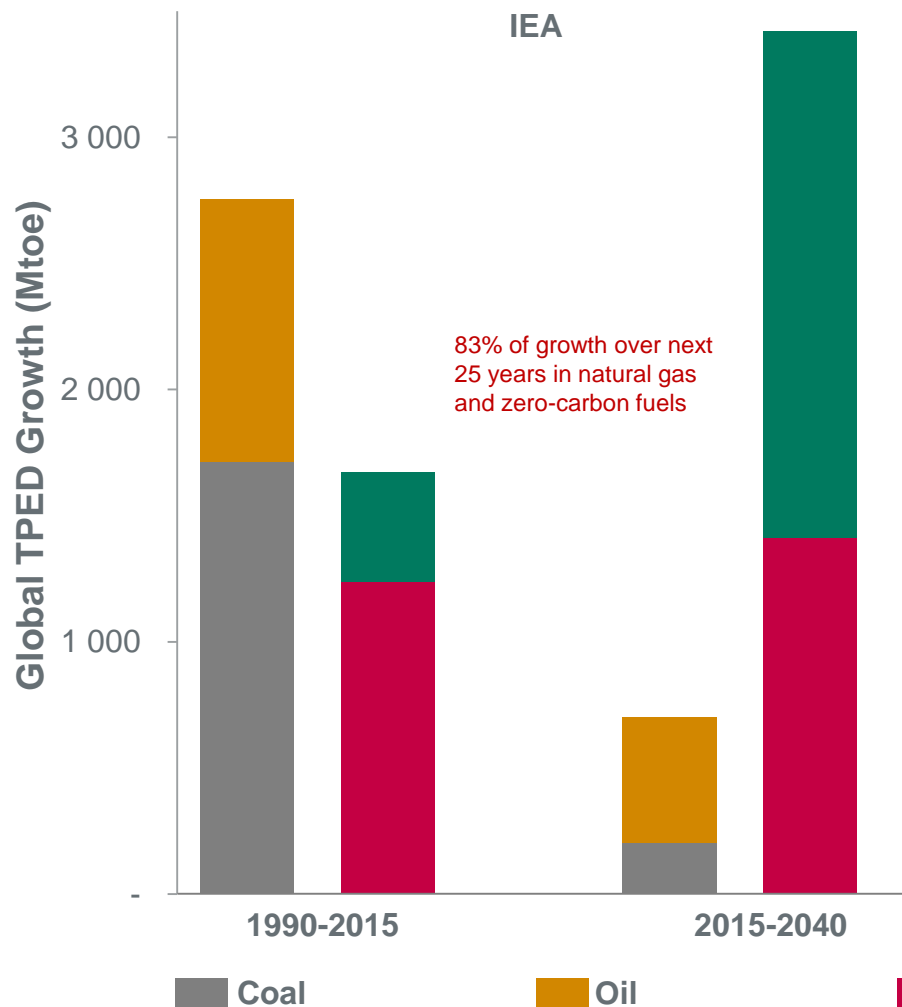
- Changes to business model
- Portfolio mix
- Investments in capabilities and technologies

Use the results to identify applicable, realistic decisions to manage the identified risks and opportunities. What adjustments to strategic/financial plans would be needed?

Using Energy Transition Scenarios

Global energy growth shifting to lower carbon

Key question is “how quickly”



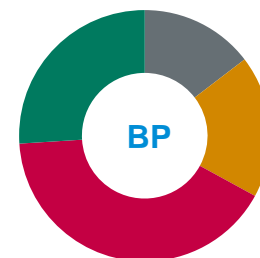
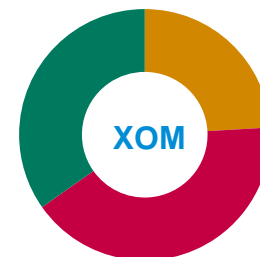
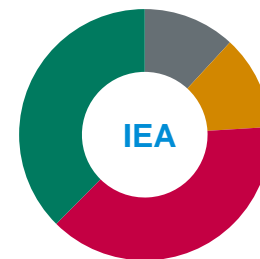
(1) Electrification / energy storage



(2) Divestment from coal



(3) Gas as a transition fuel



How Scenario Analysis Works in Practice...

India, Aviation

Risk Impact				2°C scenario (vs BAU)		Trend		
Impact Category	Financial Driver	Transition Risk Impact 2C vs BAU scenarios	Methodology	Data Source	Comments	2020	2025	2030
Revenue	Rev - flight demand	Decreasing number of flights passing through an airport	(1) Quantify changes in passenger kilometres travelled (IEA 2C vs BAU) to determine macro risk	IEA ETP Total passenger kilometres travelled	Total distance travelled by flights in India could be reduced by nearly 50% by 2040 (IEA 2DS vs 6DS)			
		Regulatory and strategic changes to city and intercity networks driving demand for high or low carbon transport options	(1) Quantify changes in the aviation % market (2DS vs 6DS) share to determine macro risk	IEA ETP 2016 Share of passenger kilometres travelled by air to the total passenger kilometres	Some air travel could shift to rail (IEA 2DS vs 6DS)			

Changes Between 2017 and 2018 (proposed)

Number	New Questions
CC 1.1b	What is the board/committee's oversight of climate related issues for TCFD?
CC 1.1c	Below board-level, please identify the position of the individual or name of the committee in management with the highest responsibility for climate change.
CC 2.1	Please describe what your company considers to be short-, medium- and long-term horizons.
CC 2.2	Please describe the processes used to determine which climate-related risks and opportunities could have a substantive financial impact on your business, operations, revenue and expenditure, assets and liabilities, and capital allocation.
CC 2.3	Select the option that best describes your risk identification and assessment procedures with regard to climate change risks and opportunities.
CC 2.3b	Describe your risk management procedures for identifying and assessing climate-related risks and opportunities.
CC 2.3c	Identify which of the following criteria are factored into your organization's climate risk assessments (related to regulation/value chain issues)
CC 2.5 (previous 5.1)	Modified: Have you identified any inherent climate change risks that have the potential to have a substantive financial impact on your business, operations, revenue or expenditure, assets and liabilities, and capital allocation?
CC 2.5a (previous 5.1a)	Modified: Please provide details of your identified risks that have the potential to have a substantive financial impact on your business, operations, revenue or expenditure, assets and liabilities, and capital allocation.

Changes Between 2017 and 2018 (proposed)

Number	New Questions
CC 2.7c	Please describe where and how your identified risks and opportunities have served as an input to your financial planning process.
CC3.1a	Indicate whether your company uses climate-related scenario analysis to inform your business strategy?
CC3.1b	Indicate whether your company has developed a low-carbon transition plan to support the long-term business strategy?
CC3.1d	Disclose details of your company's use of climate-related scenario analysis.
CC3.1e	Disclose details of your company's low-carbon transition plan
C3.1g	Describe why your company does not use climate-related scenario analysis to inform your business strategy.
CC4.2	Please provide details of other key climate-related targets not already reported in question CC4.1/a/b. (includes renewable energy consumption/production, waste, energy/land use, supplier engagement)
CC7.1b	Please give details of methods of engagement and measures of success in engaging with your customers.

Insights



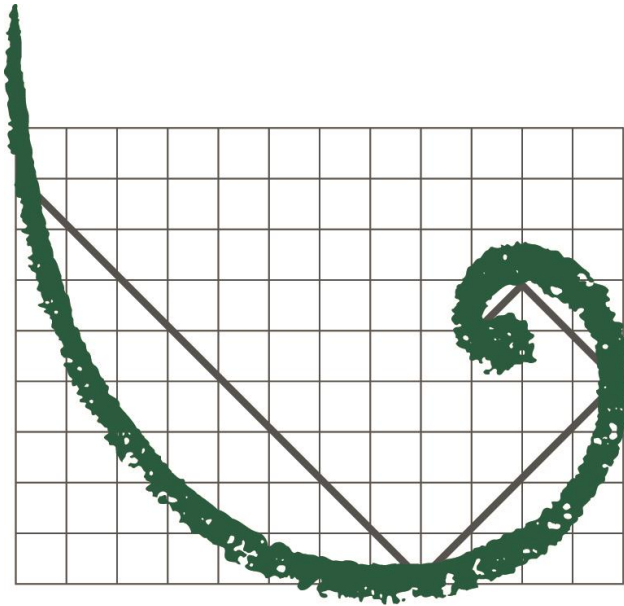
Managing Expectations

Current Score	Baseline (D and C)	Moderate (B)	Advanced (A)
Maturity	Baseline companies have an inventory and reporting program with a solid foundation and numerous opportunities for accelerated improvement.	Moderate reporters have a baseline program in place but some inconsistency around governance and actions. There are areas where they are leaders.	Advanced reporters are aligned with best practice and looking to adopt emerging trends.
Key Program Components	<ul style="list-style-type: none"> ▪ GHG inventory ▪ Basic response ▪ Building a climate strategy from existing policies and programs 	<ul style="list-style-type: none"> ▪ GHG inventory verification ▪ Scope 3 inventory ▪ Alignment of governance and actions 	<ul style="list-style-type: none"> ▪ Performance driven ▪ Carbon reduction strategy <ul style="list-style-type: none"> ▪ Carbon pricing ▪ Renewables ▪ TCFD ready ▪ Science-based target (SBT) ▪ Product sustainability (LCA) ▪ Supply chain engagement

TCFD = Task Force on Climate-related Financial Disclosures

Discussion





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