

Understanding the changes to CDP verification requirements and scoring in 2015

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As both the number of companies reporting corporate greenhouse gas emissions and the diversity of organizations and applications using this data increase, the need for independent verification of the data and systems underlying these inventories becomes substantially more important. The primary objective for most companies engaging a third-party verifier is to convey a higher degree of confidence in reported results and forecasts. Following successful verification, users of emissions data at every level – the general public, clients, senior management, stakeholders and investors – are provided with an independent statement of assurance that increases the credibility of the inventory and decreases the risks associated with material misstatements¹. Similarly, assessments verified against the same standards using the same criteria allow for a fair comparison of corporate emissions, targets and progress.

In 2014, over 760 investors representing approximately USD 92 trillion in assets formally backed the CDP's climate change initiative². These signatories use the climate change data annually submitted to the CDP to assess risks and opportunities arising from environmental externalities and inform sustainable investment decisions. Clearly, ensuring the completeness, accuracy and transparency of reported data is paramount to the objectives of both the CDP and the investors; independent verification provides the mechanism to credibly achieve this.

The current landscape: 2011 to 2014

From 2011 to 2014, the CDP maintained a consistent approach to scoring companies' verification activities and performance. While verification was not required, the CDP encouraged companies to verify submitted data by awarding points for assurance activities; during this time period, 11% of total disclosure points and 17% of total performance points were tied to verification activities³.

Scoring breakdown

In order to achieve full disclosure points associated with each of Scope 1 and Scope 2 emissions (4 points per scope in 2014), companies needed to provide total emissions for each scope, indicate that at least a portion of emissions from each scope were assured, and provide a few basic details on the assurance engagement: type of verification (e.g. limited or reasonable), the

¹ <http://www.ghgprotocol.org/files/ghgp/public/ghg-protocol-revised.pdf>

² <https://www.cdp.net/en-US/WhatWeDo/Pages/investors.aspx>

³ <https://www.cdp.net/en-US/Respond/Pages/verification.aspx>

applied standard, and the proportion of emissions verified. In addition, the reporting company needed to attach a verification statement, or a full verification report, or the CDP's verification template⁴ to their CDP response. For full performance points (3.5 points per scope in 2014), the attached document also needed to comply with the following scoring methodology criteria:

- It must clearly relate to GHG emissions, the relevant scopes and the correct reporting period;
- It must state the CDP-approved standard used for verification and;
- It must contain a final assurance statement

Companies had the potential to achieve full points only if verification of reported data was complete, or underway provided it was the company's first ever assurance engagement, or underway and the previous year's assurance (or biennial/triennial process) statement was attached as proof. In situations where regulatory Continuous Emissions Monitoring Systems (CEMS) were required, companies could achieve full points without verification by providing appropriate evidence.

If a company didn't disclose emissions data, or disclosed that no verification occurred, or disclosed that biennial or triennial processes were in place but were not third-party assured, only one out of four disclosure points per scope – and zero performance points – were awarded. Logically, if the question wasn't answered, no points were given. It is worth noting that internal assurance and "pre-assurance" activities were not accepted forms of verification; the same is true moving forwards. The scoring scenarios outlined above applied separately to Scope 1 and Scope 2 emissions data⁵.

Additional data verification

In 2014, a new question (8.8) was added to the CDP climate change questionnaire and asked companies to, "Please identify if any data points other than emissions figures have been verified as part of the third party verification work undertaken"⁶. A variety of additional data types were available to choose from, including year-over-year emissions changes, progress against emission or energy reduction targets, and changes in scope emissions totals against a set base year⁷. While not currently significant from a scoring perspective, with a maximum of only one point possible, the addition of this new question was indicative of the overall trend moving forward to reward companies within the scoring matrix who go above and beyond baseline verification activities.

Verification standards accepted by the CDP

The CDP requires the use of an approved verification standard in order to ensure that assurance activities are broadly comparable, and they provide a list of pre-approved – and rejected – standards on their website⁸. Companies are welcome to submit alternative protocols for review

⁴ Available for download from <https://www.cdp.net/en-US/Pages/guidance-climate-change.aspx#scoring>

⁵ <https://www.cdp.net/Documents/Guidance/2014/CDP-2014-Climate-Change-Scoring-Methodology.pdf>

⁶ <https://www.cdp.net/Documents/Guidance/2014/CDP-2014-Climate-Change-Scoring-Methodology.pdf>

⁷ <https://www.cdp.net/Documents/Consultation/2014/CDP-Verification-Response-Document.pdf>

⁸ <https://www.cdp.net/en-US/Respond/Pages/verification-standards.aspx>

by staff at the CDP⁹, and it is strongly recommended that approval of a new standard be received from the CDP prior to beginning the assurance engagement. Examples of suitable protocols include the California Mandatory GHG Reporting Regulations (CARB), the Carbon Trust Standard, the Climate Registry's General Verification Protocol (aka CCAR), ISO 14064-3, the Japanese and Tokyo Emissions Trading Schemes, and verification under the EU Emissions Trading Scheme (EU ETS). In contrast, the Clean Development Mechanism (CDM), ISO 14001, ISO 14064-1, the Global Reporting Initiative (GRI), and the GHG Protocol Corporate Reporting & Accounting Standard were classified as unsuitable for various reasons. The CDM relates to project accounting, which is not the same as inventory accounting and therefore does not apply to CDP climate change data; ISO 14001 is a standard used to verify environmental management systems, not the data gathered from them; and ISO 14064-1, the GRI and the GHG Protocol are inventory protocols or platforms, rather than verification protocols.

Looking forward: 2015 and beyond

In June and early July of 2013, following a period of internal monitoring and discussion, the CDP engaged stakeholders in a consultation on potential changes to verification questions in future climate change questionnaires. The proposed modifications were designed to “reward companies for having a greater proportion of their emissions verified and to increase data user confidence in the emissions data reported by companies to the CDP”¹⁰.

Scoring breakdown

Beginning in 2015, there will be three possible scoring outcomes for Scope 1 and 2 verification activities (questions 8.6 and 8.7 in the 2014 questionnaire). Companies will be awarded full, partial or no points for verification depending on the proportion of emissions verified and the conformance of verification activities with CDP-approved protocols and scoring criteria. Most importantly, the CDP will introduce a ‘verification threshold’ of 70% that companies must meet or exceed in order to achieve maximum points. The rationale informing the 70% threshold is explained in the verification webinar referenced below.

The below scenarios are summarized using information from the CDP’s consultation document¹¹ and verification webinar¹². These scenarios focus on Scope 1 emissions for clarity, but the approach is identical for Scope 2 emissions verification questions.

Scenario 1: Full Points

- Verification of ≥70% Scope 1 emissions and;
- Verification statements associated with ≥70% Scope 1 emissions comply with the CDP scoring methodology criteria and;
- No relevant exclusions (question 8.4 in 2014) from reported footprint values (questions 8.2 and 8.3 in 2014)

⁹ Submit to verification@cdp.net - include the name of standard and a web link to access it

¹⁰ <https://www.cdp.net/Documents/Consultation/2014/CDP-Verification-Response-Documents.pdf>, p. 3

¹¹ <https://www.cdp.net/Documents/Consultation/2014/CDP-Verification-Response-Documents.pdf>

¹² Available for download from <https://www.cdp.net/en-US/Respond/Pages/verification.aspx>

Scenario 2: Partial Points

- Verification of $\geq 70\%$ Scope 1 emissions but;
- Verification statements associated with $< 70\%$ Scope 1 emissions comply with the CDP scoring methodology criteria

OR

- Verification of $\geq 70\%$ Scope 1 emissions but;
- Relevant exclusions from the reported footprint values have been reported

OR

- Verification of $< 70\%$ Scope 1 emissions and;
- Verification statements associated with $> 0\%$ Scope 1 emissions comply with criteria
- Relevant exclusions may or may not have been reported

Scenario 3: No Points

- No verification or;
- No statements attached comply with the CDP scoring methodology criteria

Specific details related to the exact number of points awarded for the full and partial verification scenarios are not available at the time of writing.

Relevant exclusions

It is important to understand the required criteria of 'no relevant exclusions' in order to qualify for full points. The reasoning for this is fairly straightforward – if a company is excluding material emission sources, they cannot know what proportion of their actual total emissions they are reporting. This, in turn, impedes their ability to accurately state what proportion of their Scope 1 and Scope 2 emissions have been verified.

For example, let's imagine that a company attaches compliant verification statements indicating that 80% of total Scope 1 emissions have been independently verified, but also reports relevant exclusions. If these exclusions are later determined to represent 30% of total Scope 1 emissions, then the company has actually only verified 80% of 70% of total Scope 1 emissions, equal to only 56% of total Scope 1 emissions. In other words, significant exclusions make progress towards the chosen verification threshold meaningless.

Carbon Performance Leadership Index (CPLI)

Responses to the CDP climate change questionnaire are scored against two distinct schemes: disclosure and performance. A company's performance score "assesses the level of action, as reported by the company, on climate change mitigation, adaptation and transparency... A high performance score signals that a company is measuring, verifying and managing its carbon footprint, for example by setting and meeting carbon reduction targets and implementing programs to reduce emissions..."¹³. Companies with top performance scores are eligible for inclusion in the CPLI and, in order to achieve this distinction, they must meet a set of CDP-defined criteria, one of which is scoring full points for Scope 1 and 2 emissions verification.

¹³ <https://www.cdp.net/CDPResults/CDP-climate-performance-leadership-index-2014.pdf>

Beginning in 2015, only companies that meet or exceed the 70% verification threshold and comply with scoring methodology criteria will be potentially eligible for inclusion in the CPLI¹⁴.

Timeline for upcoming changes

The CDP chose to roll out the above changes over two years. In 2014, questions 8.6 and 8.7 and their associated sub-questions, relating to the details of Scope 1 and Scope 2 verification activities, were modified in phrasing, structure and scoring. Most significantly, instead of selecting a range from a pre-set dropdown for the proportion of emissions verified, companies were asked to report a precise figure¹⁵. Moreover, question 8.8, relating to the verification of additional data, was added. These changes were made to allow reporting companies the chance to familiarize themselves with the new requirements and layout prior to being scored against them.

Beginning with the 2015 climate change response, the CDP will implement the 70% verification threshold and new scoring methodology outlined above. Therefore, companies wishing to achieve full points for verification and be eligible for inclusion in the CPLI will at minimum need to comply with the requirements laid out in Scenario 1, above.

Scope 3 emissions verification

The current and future details associated with CDP verification methodologies and scoring discussed in this article apply only to Scope 1 and 2 emissions; they do not relate to Scope 3 emissions verification. There will be no changes to Scope 3 verification questions or scoring in 2015. The CDP has stated that changes to the scope and scoring of Scope 3 verification activities will be communicated to reporting companies at least one year in advance, and will likely undergo a similar consultation process as Scope 1 and 2 modifications.

¹⁴ <https://www.cdp.net/en-US/Respond/Pages/verification.aspx>

¹⁵ <https://www.cdp.net/Documents/Guidance/CDP-2013-Scoring-Methodology.pdf>