Utilizing Sustainability Reporting in the Journey Towards Net Zero

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Introduction

The world is racing against the clock to lower greenhouse gas emissions in order to mitigate climate change's disastrous effects. Achieving net zero emissions has become the new goal which many companies, nations, and sub-national entities have set their sights on. A recent report by the Energy & Climate Intelligence Unit and Oxford Net Zero found that 124 countries, 73 states & regions, 155 cities, and 417 companies in their sample have made some form of commitment to net zero. Meanwhile, net zero emissions is explicitly mentioned in the Paris Climate Agreement as an essential goal to be reached by the second half of the 21st century.

Net zero emissions requires balancing the amount of emissions produced and the amount of greenhouse gasses absorbed naturally by the environment or removed via technology like carbon capture and storage. Net zero does not mean we produce zero emissions, but it will require large investments in decarbonization and carbon capture and sequestration to ensure business activities are no longer contributing to climate change.

Companies are progressively acknowledging their responsibility regarding climate change and have started to act. As a major climate priority, this concept of zero net emissions is already being widely used in the private sector. Many companies have already announced their intention to achieve net zero emissions by a certain date (see the list of companies below). This raises the questions: How, exactly, are net zero emissions to be achieved, and how will we track progress towards that goal?

Sustainability reporting, wherein organizations of all varieties – large corporations, manufacturing plants, municipalities, farming operations, etc. – report on their energy usage and emissions, plays a key role in the journey toward net zero. Additionally, many countries and states are beginning to institute laws which set emissions caps on buildings (e.g. New York City's Local Law 97). One important way sustainability reporting is used is to ensure buildings are not exceeding those caps.

In this guide, we will be discussing sustainability reporting in depth, starting with its relationship to the Net Zero initiative and why and to whom it matters. From there, we will move on to the sustainability reporting landscape as it stands today, including trends, commonly used reporting frameworks, and how those frameworks have adjusted their requirements in the wake of COVID-19. Next, we will explore how sustainability reporting can be utilized in the journey towards achieving net zero emissions. From peer comparison to implementing and properly tracking efficiency projects in your organization, there is much that can be done. We are also including sections on what not to do, challenges in the sustainability reporting arena, and how EnergyWatch's energy management software WatchWire can help your company work towards its net zero goals.

Why Sustainability Reporting Matters to Net Zero

As millennials came into purchasing power, they began holding companies accountable for their environmental impact. Consumers speak through money spent, and in 2019, CGS found that 47% of U.S. consumers would pay more for a sustainable product, with 35% willing to pay 25% more for sustainable products. Now, every market from consumer goods to class A office space is moving towards more sustainable business practices. Companies that voluntarily report greenhouse gas emissions can benefit from improved reputation among consumers, among other things. Additionally, according to the Metropolitan Area Planning Council (MAPC), reducing greenhouse gas emissions in buildings should be the number one priority for those looking to achieve net zero.

Investor requests are another huge driver behind companies reporting their emissions and energy use. Sustainability-focused companies are outperforming in the S&P 500, showing that investors are increasingly interested in companies that report on their goals and work towards them. When deciding what companies to back with their dollars, investors are increasingly turning towards the ones that strive to better the world we live in.

Additionally, properly completing sustainability reports requires you to have an aggregated source of data from your portfolio (however small or large it may be). Once you have this single source of truth for your building(s) emissions data, you can accurately identify areas of inefficiency, drive cost reductions, and streamline your sustainability reporting process. Reduced energy use and greenhouse gas emissions put dollars in your company's pocket, give you competitive advantage, and inspire confidence from your investors. Wherever you can make sustainability measures pay for themselves in terms of resources and dollars saved is a win for the planet, a win for your company, and a win for society.

Finally, there is the issue of climate change, presenting many challenges for both companies and humanity. There is great concern around water scarcity, biodiversity loss, and sea level rise, just to name a few. Climate change has been the driving force behind the net zero emissions initiative, confronting it head-on. The initiative aims to significantly reduce the amount of CO_2 in the atmosphere and deaccelerate the warming of the planet.

NOTABLE COMPANIES COMMITTED TO ACHIEVING NET ZERO:

Facebook Ford Motors General Mills IKEA Mastercard Mercedes-Benz PayPal

PWC The Guardian U.S Army Unilever U.S. Dairy

Who Cares About Sustainability?

Asking yourself this question before you begin reporting can help you determine which framework and commitment makes sense for your company. A lot of the frameworks have been driven by investors, namely CDP (formerly the Carbon Disclosure Project). To impress customers and show them you are aligned with their interests and values, you may be well suited to take on Science Based Targets for your operations. Meanwhile, the Fitwel and WELL Building standards show that your company has the health and wellbeing of its employees in mind. Finally, if your jurisdiction requires you to disclose, you will be interested in reporting to ENERGY STAR Portfolio Manager. There are municipal and statewide movements towards consolidating benchmarking and building efficiency ordinances with ENERGY STAR Portfolio Manager, which stems from elected officials recognizing that climate change and the carbon emissions that drive it are high-priority, societal issues.

Meanwhile, sustainability reporting in the U.S. has gone from being just a coastal phenomenon to moving into the heartland. This shift proves that sustainability reporting is not just political, it is an issue of creating good jobs around renewable energy and providing energy security. European companies and regulators have also adopted sustainability reporting initiatives and taken it a step further to include social responsibility and diversity reporting requirements. We can expect similar requirements to come to the States soon, especially with the Biden administration diverging from the previous administration's environmental laissez-faire.

Is Sustainability Reporting Mandatory?

That depends what country, state, or city your company resides in. Companies of all sizes and types are encouraged to produce sustainability reports to increase awareness of their environmental footprint and let investors and clients know where the company stands in terms of sustainability, with an increasing number of them being required to do so.

A 2020 study by Carrots and Sticks revealed that there has been a substantial increase in sustainability reporting regulations around the world. A few of the countries that have mandatory sustainability reporting are:

- **United States**: According to regulations issued by the US Securities and Exchange Commission (SEC), all listed companies should disclose their environmental compliance expenses. The New York Stock Exchange (NYSE) mandates the listed companies to adopt and disclose a code of business conduct and ethics. Additionally, many cities require reporting to ENERGY STAR Portfolio Manager, a benchmarking platform with a strict set of emissions standards.
- **The United Kingdom**: In the United Kingdom, quoted companies are mandated to provide a report disclosing annual greenhouse gas emissions under the Companies Act of 2006.
- **European Union**: The EC Directive on Disclosure of Non-Financial and Diversity Information (2013) is a major reporting instrument of the EU. Certain large companies and public-interest companies are required to disclose material environmental matters.
- **China:** China has seven regulations that act as instruments of mandatory disclosure on sustainability matters. The Environmental Information Disclosure Act of 2008 mandates corporations to disclose environmental information according to the regulatory requirements. A separate report with an environmental disclosure is also requested from large companies listed on the Shanghai Stock Exchange.
- **India:** India has seven instruments with a mandatory status that can be used for sustainability reporting. The Securities and Exchange Board of India requires the top 100 listed companies to produce annual Business Responsibility Reports.

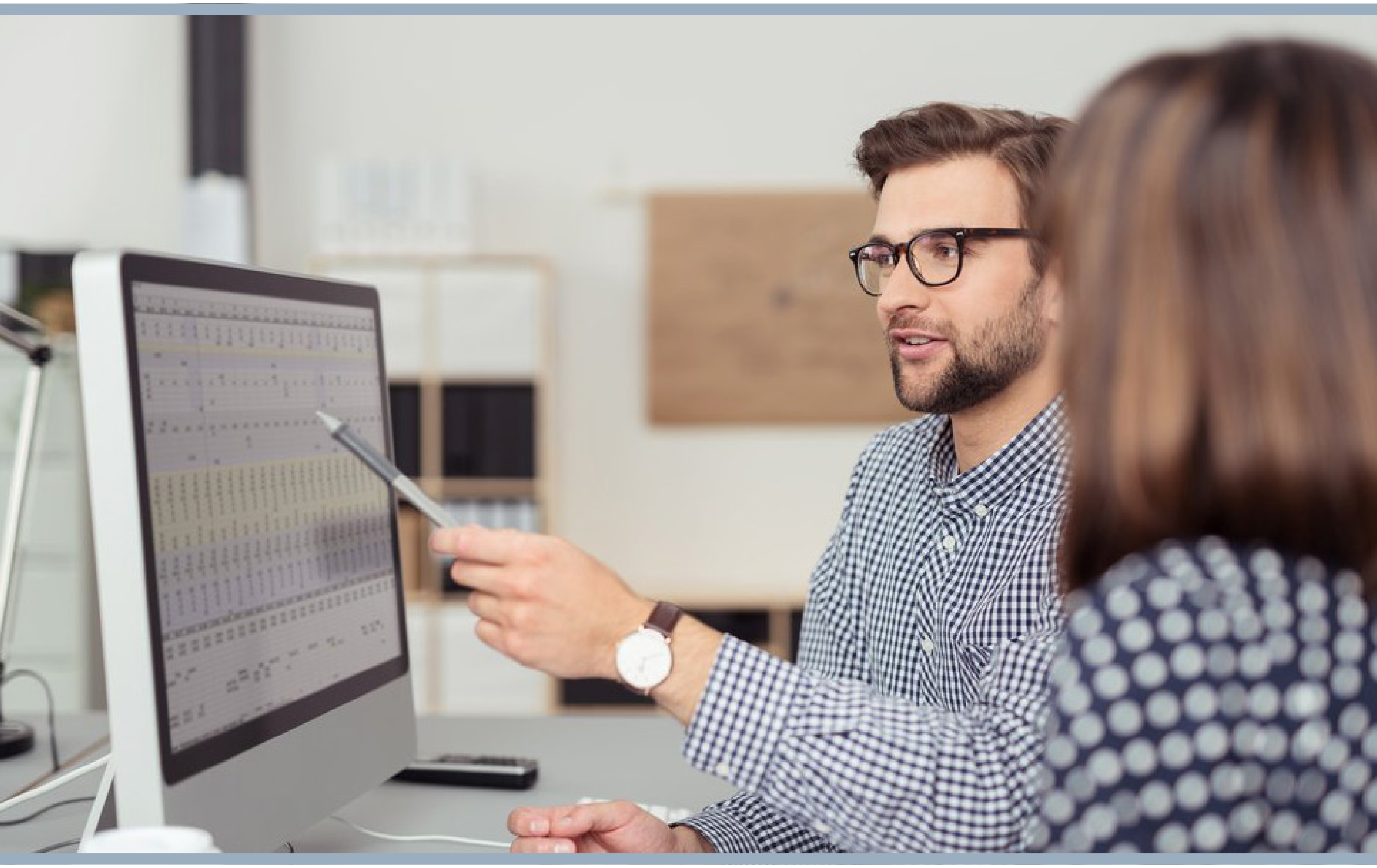
Note that mandatory sustainability reporting is usually only applied to state-owned companies, large corporations, or listed companies. Additionally, some instruments have a "comply or explain" approach to sustainability reporting.

The Latest Reporting Trends Seen in 2020

A new report by The Conference Board in late 2020 has revealed the latest trends in sustainability reporting, based on nearly 6,000 companies in 26 countries reporting on more than 90 environmental and social practices from greenhouse gas (GHG) emissions to leadership diversity to water use. Here are the biggest trends to keep your eye on:

Sustainability Reporting Is on the Rise

Almost one-fourth (23%) of companies report their GHG emissions, up from 21% in 2019. In the United States, 56% of companies report GHG emissions, up from 49% last year. Disclosure of water consumption is also on the rise, which is unsurprising since global water shortages are one of the major concerns surrounding climate change. Globally, one fifth of companies report how much water they consume, up from 18% last year. In the United States, more than one-third (34%) of companies report their water data, compared to 29% last year.



The Latest Reporting Trends Seen in 2020, Cont.

More Reporting Does Not Always Equal Change

While 2020 has seen increases in sustainability reporting among corporations, this greater transparency is not always spawning major changes. While more companies are acknowledging the risks posed by climate change, the median reported greenhouse gas (GHG) emissions by those same companies have risen over the last three years, proving that reporting does not always drive performance.

It may also reflect that, due to stakeholder pressure and the requirements of various reporting frameworks and rating agencies, companies may be reporting on topics that are not essential to their businesses or performance, and thus they do not have an incentive to change their performance while more reporting does not equal change.

However, it is important to remember that more ambitious initiatives like net zero are hard to measure in the short term. The net zero commitments of many companies may very well be having a positive influence, but since net zero emissions goals are set far in the future (most companies have their goals set to 2030+), their impacts will not be known for some time.

Expect Increased Pressure to Report on Gender Equity and Board Diversity

For the first time, over 50% of companies are reporting data on the gender makeup of their boards. And while gender pay gap details are not commonly reported as of now, that is changing: The number of companies doing so more than doubled since last year.

If your company is not currently reporting on gender equity, you can expect increased pressure to do so.

There's A Demand for More Accurate Data

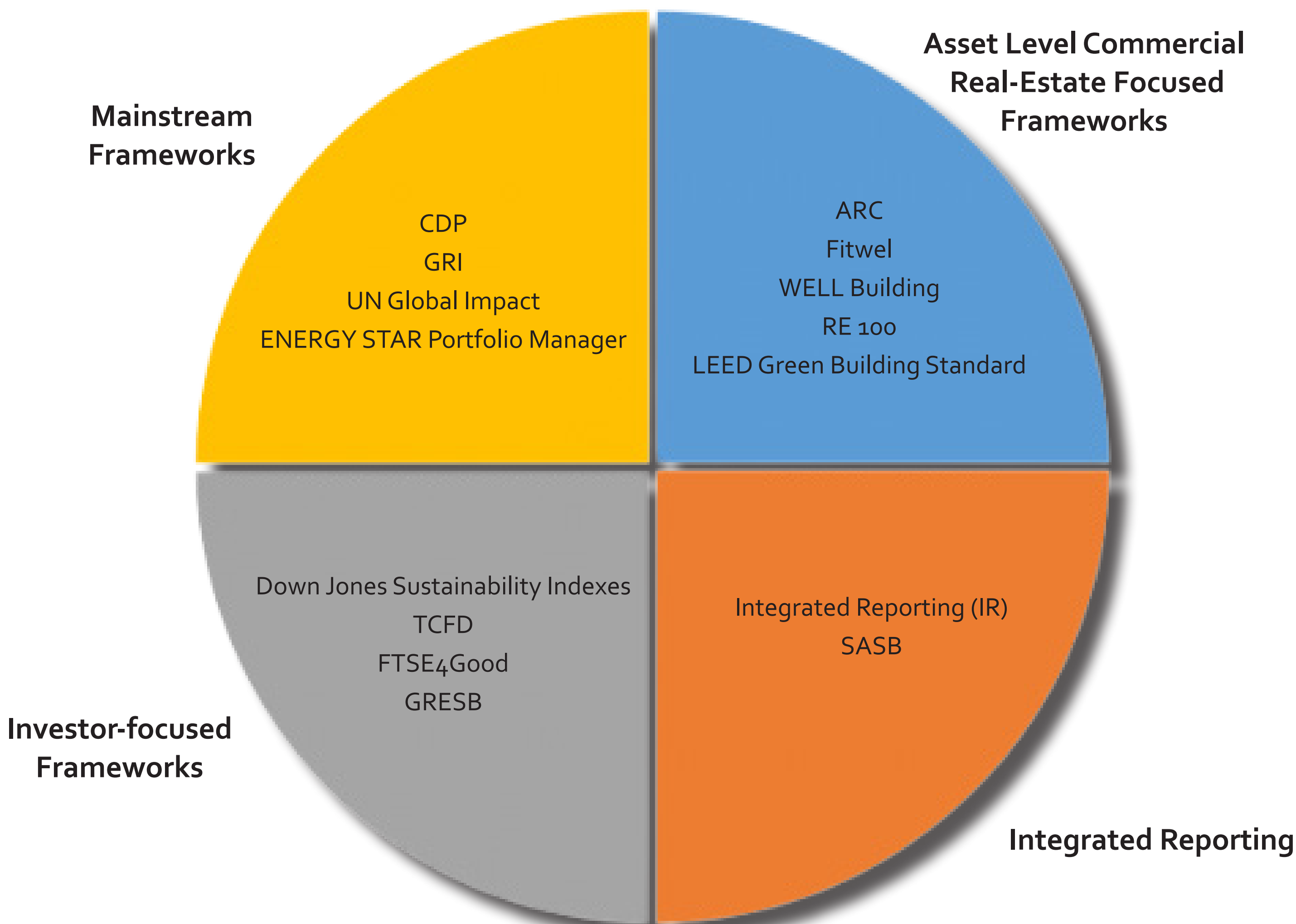
As more companies report on sustainability-related issues, investors are demanding more reliable, high-quality, and comparable data sets. Business models are being increasingly exposed to social and environmental issues, and investors need information that allows them to assess how the companies they hold stock in are managing such issues and the impact they have on the company's long-term success. If your company is compiling data manually or needs more accurate, minute-to-minute data, an energy and sustainability reporting software platform with comprehensive utility bill management as well as real-time data monitoring can allow you to view all your data in one place and share dashboards with your investors featuring all your energy and emissions data as it rolls in.

Stock Exchanges and Banks Are Pushing for Sustainability Reporting

While most reporting provisions are issued by governmental bodies, engagement by financial market regulators including central banks has grown significantly. The economic and market implications of sustainability reporting are becoming clearer. For example, from 2015-2019, sales of sustainability-marketed products grew 5.6 times faster than conventionally marketed products, according to NYU's Center for Sustainable Business.

Common Sustainability Reporting Frameworks

There are a lot of players in the sustainability reporting space and it can be difficult to decide on first/next steps and which framework(s) to use for your company. Start by asking yourself the question "who am I reporting for?", then "what means the most to them?". Once you have nailed down the audience and what their most important KPIs are, refer to the chart below to see which frameworks check the most boxes for your needs.



While the sustainability reporting framework landscape remains crowded and complicated, there is some good news. Currently, GRI, CDSB, CDP, SASB, and IR are working together to build a more comprehensive corporate reporting framework for the investor-focused space. Their goal is to arrive at the same level of maturity for sustainability reporting as we see in the modern financial reporting system. This will allow investors at every level to have access to companies' results, compare sustainability reporting across companies and industries, and make educated decisions on capital allocation.

Various Reporting Schemas and Updates for 2021

ENERGY STAR Portfolio Manager:

All buildings following ENERGY STAR Portfolio Manager guidelines should update weekly operating hours and number of workers on shift to reflect changes in operations due to COVID-19. All other inputs should only be updated if the changes were not due to the impacts of COVID-19. Meanwhile the deadline for 2020 ENERGY STAR certification has been extended to February 10, 2021.

ENERGY STAR has also temporarily suspended the requirement to apply for energy certification within 120 days of the application's period ending date.

GRESB:

Participation in the 2020 GRESB assessment grew by 22% despite COVID-19. This shows an industry responding to investor demand for comparable ESG data. GRESB is actively working on adjustments and guidance to align with COVID-19 in 2021 assessments.

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CDP:

9,617 companies worth over 50% of the global market capitalization disclosed their environmental data via CDP this year, up 14% since 2019 and 70% since 2017. This is a response to requests for information from investors worth $106 trillion in assets and over 150 major purchasing organizations with over 4 trillion in buying power. In February of 2021, CDP announced they were joining global corporate action towards net-zero and continuing to, "Work with and grow our accredited solutions providers network – expert environmental service providers who can support companies through every [net zero] stage from ambition to strategy to action."

LEED:

If you plan on submitting LEED projects before June 30th, 2021, use pre-COVID-19 performance data and implement outlined pathways which account for reduced occupancy during the pandemic.

The same applies to reporting water usage – select a reporting period pre-COVID-19. Just make sure you use the same period across the board for all reporting.

Alternately, you can use a one-year time period with weighted occupancy to adjust for coronavirus conditions. LEED has fully embraced the Net Zero Initiative, creating LEED Zero, a complement to LEED that verifies the achievement of net zero goals. Click here to explore the features of LEED Zero.

TCFD:

Over the past 15 months, the number of organizations supporting TCFD, Michael Bloomberg's reporting framework, has grown 85%. TCFD has reached 1,500 organizations globally, including 1,340 companies with $12.6 trillion in market capitalization and financial institutions responsible for assets of $150 trillion. Nearly 60% of the world's 100 largest companies support using TCFD, report in line with them, or both. Meanwhile, BlackRock CEO Larry Fink is tying SASB and TCFD together and asking companies to report in line with both frameworks.

EnergyWatch's Top Tips for Sustainability Reporting in 2021

1. Determine your reporting audience – who will be reading the reports (prospects, clients, employees, investors, or all the above)?

2. Link companies' activities/initiatives to the UN's Sustainable Development Goals

3. Integrate sustainability across your organization, e.g.:
   - Understanding global forces
   - Scenario planning for the future
   - Creating a five-year plan

4. Streamline your sustainability data collection process required for all reports

5. Automate your reporting process as much as possible, while remaining adaptable to the changing landscape of reporting

Setting Your Sights on Net Zero

It is important to note that, as new technologies emerge, adopting net zero is likely to become the norm rather than an exemplary action. Furthermore, climate activists and experts like Greta Thunberg and Mathew Farrow, executive director of the Environmental Industries Commission (EIC), are already advocating for a move past net zero to "real" zero – absolute emissions reductions rather than a balance between emissions produced and removed.

Meanwhile, another net zero alternative is emerging and could well redefine sustainability leadership in the 2020s. It involves moving beyond net-zero and striving to actually regenerate the environment, not just keep emissions from increasing. Major companies like Microsoft, AstraZeneca, and Starbucks are embracing this path. Microsoft plans to reduce its carbon impact to below net-zero by 2030, while also removing carbon from the atmosphere that it has emitted since 1975. AstraZeneca has pledged to become carbon-negative across its entire value chain by 2030, and Starbucks has declared its intention to become resource positive by storing more carbon than it emits, eliminating waste, and replenishing freshwater.

All things considered, net zero is still an integral terminology for any company hoping to achieve lasting prosperity through sustainability. Just keep in mind that the landscape is changing quickly, and companies that take aggressive action to reduce emissions are most likely to see it pay off moving forward. So, what are the specific aspects which can help you achieve your goal of net zero emissions?

- Emissions tracking is a major part of sustainability reporting. Once you know how much GHG your building(s) emits, you can properly report on it, then work on reducing that amount. Tracking and reporting emissions helps your company increase efficiency, lower unnecessary energy costs, and get a better idea of energy consumption trends. The best way to track your emissions is with Interval Emissions Data. Generated by interval meters and/or smart meters, interval data allows you to look at what is going on in your building right now. Thus, it is more efficient in managing a building than monthly utility bill data.
- Peer comparison is the process of comparing how one group, categorized by an individual or set of determinants, is performing against another group. When used in terms of energy use, peer comparison can improve companies' energy efficiency and sustainability and reduce energy costs. (Studies show that when we have information about the energy consumption of businesses and buildings around us, our own energy use will decline by a minimum of 2%.) Peer comparison involves tracking multiple building characteristics, e.g., HVAC system details and air flow controls, to provide you with the ability to compare your building against narrow subsets of buildings to evaluate how you truly compare against competitors.
- Efficiency projects are measures you take to increase the efficiency and sustainability of your building by reducing wasted energy. First, you will want to identify areas of excess, then set conservation goals. Once you have a good idea of the efficiency targets you would like to reach, reduction of energy consumption can be achieved in a variety of ways: Securing LEED certifications for your building(s), installing LED lighting in place of older energy-guzzling bulbs, introducing renewable energy where possible, and encouraging employees to endorse sustainable lifestyles in and out of the office.

What to Avoid Doing

Checking boxes

If you are going to go to the trouble of finding a reporting framework and following it, really follow it. Make use of the data you collect and the findings you discover to truly reduce your company's emissions and lower energy costs. One of the reasons we may be seeing an increase in sustainability reporting but little change in emissions in precisely because of box checking.

Greenwashing

Greenwashing occurs when companies attempt to make people believe they are doing more to protect the environment than they really are. For example: Buying a large amount of renewable energy credits (RECs) and then publicizing it as major action. Buying RECs is good, but you should consider it more of a stop gap before you do something more impactful. Consider if there is more your company could be doing. In the meantime, make sure your statement to the market is commensurate with the actions you are taking.

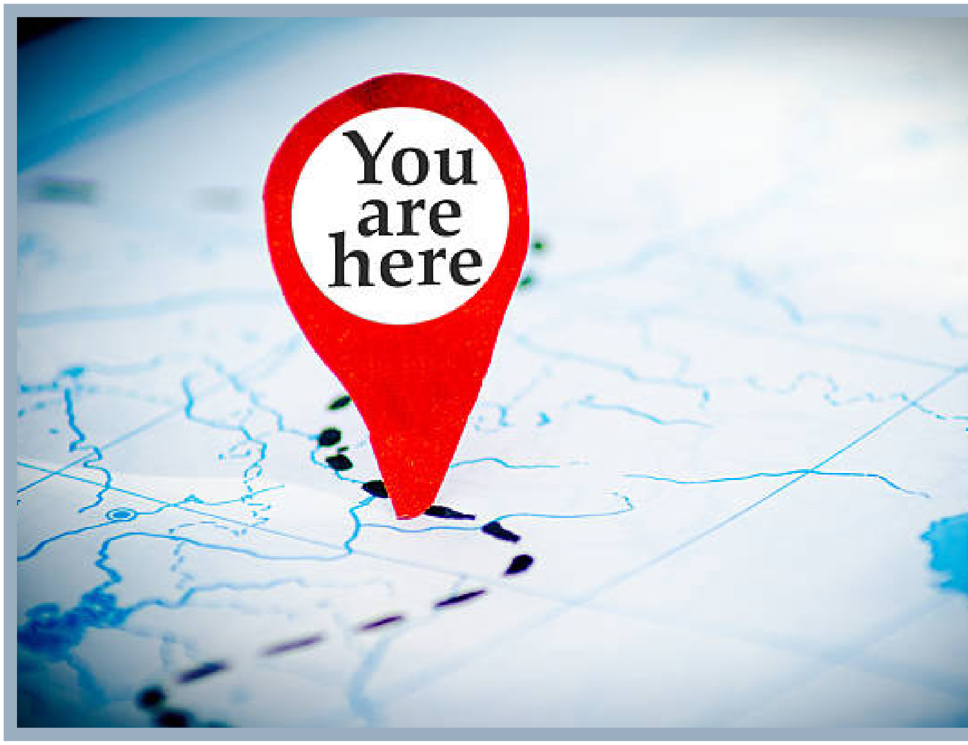
Excessive Offsetting

Offsetting, when used in excess, is another form of greenwashing. Many organizations are using offsets to reach their net zero goals. This involves removing emissions via natural or engineered 'carbon sinks', like planting trees or using carbon capture and storage (CCS) technologies. However, offsetting is seen as a controversial tactic by many green groups who claim it is a way for companies to dodge true environmental responsibility and meaningful action.

The Energy & Climate Intelligence Unit/Oxford report found that for all types of entity, the majority of commitments are unclear on whether they intend to use carbon offsets, and very few entities explicitly rule out the use of offsets. Meanwhile, for those entities that indicate they will use offsets, only a few set conditions on their use. As your company embarks on its net zero journey, you should: Beware of using offsets as a crutch, place offset implementation below measures that actually reduce the amount of greenhouse gasses your company produces (e.g., efficiency projects), and finally, be transparent about how much you do use offsetting.

Challenges in Sustainability Reporting Today

- Absence of a standard
- Competing frameworks
- Data inaccuracy
- Data coverage
- Inconsistent reporting methods
- Measurement uncertainty



How EnergyWatch Can Help

EnergyWatch streamlines, automates, and standardizes your sustainability reporting process through our cloud-based energy management software, watchwire. The platform stores and analyzes all energy, water, waste, and emissions data, providing a single source of truth for your organization. With multiple integrations to LEED Arc, GRESB, and more, standardizing your sustainability reporting process is possible. Watchwire also provides real-time data monitoring, so you can see how well your sustainability measures are working and provide the most recent energy and emissions data to your investors.

The reporting landscape is still settling. By implementing best practices now, you can be ready to tackle any initiative. At EnergyWatch, we have seen increasing client interest in moving sustainability reporting to their financial filings. For instance, in 2019, EnergyWatch client Vornado Realty Trust obtained a Deloitte examination of their Sustainability Report data to be furnished with an SEC form 8-K, the first time an examination report of ESG topics has been made in an SEC filing.

ABOUT ENERGYWATCH

EnergyWatch is a NYC based energy management software-as-a-service (EMSaaS) provider. EnergyWatch helps commercial and corporate real estate portfolios, Fortune 500 industrial/manufacturing and big box retail, government, healthcare, and educational facilities across the US reduce energy consumption, emissions, and expenses, simplify energy reporting, and measure and verify operational changes and capital projects.

Learn more at energywatch-inc.com

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