

ACT

GUIDANCE

Assessing low-
Carbon Transition

**ACT sector
methodologies
development**



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Background and purpose of the document

These guidelines are part of the Assessing Low-Carbon Transition (ACT) initiative. They expand the principles set out in the ACT Framework¹ to the development of new ACT sector methodologies. They are intended in particular for those in charge of technical working groups (TWGs) as well as for those called upon to draft sections or contribute to the work of the TWGs.

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This document is structured according to the development steps for a new ACT sector methodology. It essentially consists of 3 phases:

- 1. Establishment of the sector Technical Working Group (TWG) - Incubation phase**
- 2. Design of the ACT Sector Methodology – Development phase**
- 3. Approval of the new ACT Sector Methodology – Validation phase**

The development of an ACT sector methodology implies the production of a detailed methodological document and of the associated tools. The latter shall include the ACT questionnaire and support for the calculation of the performance indicators. They should prevent misinterpretation and improve comparability and fairness of the ACT assessments.

¹ "ACT Framework", Version 1.1, ACT Initiative, 2018.

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1. Governance

The Board is responsible for:

- the decision to launch the development of a new sector methodology
- arbitration when consensus cannot be reached within the TWG
- validation of the methodology
- the revision process and potential withdrawal of a methodology

The TWG is responsible for the development of the methodology.

The Council is responsible for a final review of the methodology.

The Secretariat is responsible for:

- the coordination of the development process
- the implementation of those decisions made by the Board that will not be implemented by the TWG

2. Incubation phase

2.1. LAUNCH

The decision to extend the ACT assessment to a new sector is a Board decision that can be triggered by a third-party formal request submitted to the Board.

To start the development of a new ACT sector methodology, the Board mandates the Secretariat to establish a Technical Working Group (TWG) of experts and representative stakeholders.

2.2. COMPOSITION OF THE TWG

The Secretariat appoints the TWG chair. The TWG chair shall ensure that relevant representatives from the following domains are invited:

- A significant representation of companies from the business sector
- Business associations
- Experts of the business sector
- Consultants specialized in environmental and/or climate issues
- NGOs, environmental associations and consumer associations
- Government agencies, international organizations
- Academics

To establish a significantly representative TWG, the group should be composed of a representative number of companies from the sector, for example between 5 to 30 companies depending on the sector. The chair

should ensure the number of companies is large enough to represent a diversity of perspectives but small enough to facilitate a smooth running of meetings. It may include SME's and/or mid-caps. The composition of the TWG shall be validated by the Board.

If a particular domain is not represented in the TWG for any reason, the group shall make every effort to consult representatives from that domain for guidance on particular aspects. If it is still not possible to draw on advice from this domain, the working group shall put this on record and inform the Board and the ACT Secretariat.

2.3. PRELIMINARY WORK

Prior to starting to develop a new ACT sector methodology, the existing ACT methodologies available for download on the ACT website should be consulted.

The TWG shall also carry out a literature search to identify the reference documents that will be used as a basis for drafting the sector methodology. These reference documents may include (non-exhaustive list):

- Default sectoral benchmarks such as ambitious decarbonization scenarios;
- Sector-specific emissions by activity (to set up proper boundaries);
- Standards for sector-specific emissions accounting;
- Sectoral low-carbon technologies landscape and roadmaps;
- Sector best practices to cut emissions throughout the value chain;
- Sectoral, organizational or sector-portfolio product lifecycle assessment (LCA) studies;
- Other relevant documentation.

3. Development phase

ACT sector methodologies are designed according to the principles of the ACT Framework.

The following sections follow the structure of a generic ACT sector methodology to guide the reader step by step. The expected content of each chapter is presented, and guidance is provided as necessary.

3.1. INTRODUCTION

The Introduction chapter explains the general and sectoral climate policy context (e.g. Paris Agreement, voluntary pledges, etc.) and highlights sectoral climate challenges.

→FOR EXAMPLE

The specific interface position of the Retail sector, in between producers and consumers, which makes value chain emissions a very significant part of the sector climate impact, was considered and explained in the ACT Retail Sector Methodology.

3.2. PRINCIPLES

The Principles chapter introduces the 5 principles of the ACT methodology (Relevance, Verifiability, Conservativeness, Consistency and Long-term orientation) that apply to all sectors. When relevant, additional principles may be included to consider sector specificities, provided they do not undermine the decarbonization ambition for the sector.

3.3. SCOPE

The Scope chapter defines the scope of the document and the scope of the sector.

3.3.1. SCOPE OF THE DOCUMENT

The scope of the document is presented in this section. It is the description of its contents and purpose within the ACT documentation.

The target audience of the sector methodology is any company carrying out at least one of the activities included in the sector.

→FOR EXAMPLE

This document presents the ACT assessment methodology for the Auto Manufacturing (AU) sector. It includes the rationales, definitions, indicators and guidance for the sector-specific aspects of performance, narrative and trend scoring.

It was developed in compliance with the ACT Guidelines for the development of sector methodologies, which describe the governance and process of this development, as well as the required content for such documents.

It is intended to be used in conjunction with the ACT Framework, which describes the aspects of the methodology that are not sector-specific.

3.3.2. SCOPE OF THE SECTOR

The scope of the sector is presented in this section.

→FOR EXAMPLE

The AU sector includes Automobile manufacturing from the CDP Activity Classification System (CDP-ACS).

The activities of the AU sector include the design of light duty vehicles (cars) and heavy duty vehicles and their final assembly. They do not include the manufacturing of vehicle parts.

Note: “final assembly” means final products (goods and services).

They are classified under the code and description “2910 – Manufacture of motor vehicles” in the ISICS classification and under the code and description “29.10 – Manufacture of motor vehicles” in the NACE classification.

3.4. BOUNDARIES

The Boundaries chapter defines the reporting boundaries of the methodology.

→FOR EXAMPLE

In the case of the Electricity sector, the ACT methodology has set the boundaries around the electricity generation segment, which represents the most relevant and substantial source of emissions of the sector.

Within a given sector, the substantial emissions may occur at different stages of the value chain depending on the company. Thus, identification of the various existing cases should be done first and flexibility for the boundaries should be preserved.

→FOR EXAMPLE

In the case of the Auto manufacturing sector, for companies producing essentially electric vehicles and developing the charging infrastructure, upstream emissions (batteries and charging infrastructure manufacturing) may become significant with respect to fleet emissions. In such cases, the boundaries should be adapted to include these upstream emissions.

Relevant information and benchmarks may be unavailable. In this case, the methodology should propose turn-around solutions to address the issue.

The temporal boundaries of the methodology may also be specified.

3.5. CONSTRUCTION OF THE DATA INFRASTRUCTURE

3.5.1. DATA SOURCES

The data sources section introduces the general approach to data collection, identifies sectoral specificities and the data sources. Data sources potentially include the company itself and third-party providers.

The availability of the involved data (from the company or third-party providers) shall be considered for the design of the indicators, as the lack of reliable data or information would undermine the possibility for the assessment to rely on such indicators in practice.

After the data needed to perform the assessment are identified, the most relevant sources shall be identified. Preference should be given to data that is reliable, verified, verifiable or can be validated in some way. When such data are difficult to collect from a company, external data sources may be used to reduce the burden on the company and ensure verifiability, comparability and fairness.

3.5.2. COMPANY DATA REQUEST

The company data request shall be presented to the assessed company in a comprehensive data collection format (questionnaire) based on the information needed to conduct the assessment. It should only include data and information required from the company for the calculation of the indicators.

The data request questionnaire shall be developed as a separate document and include guidance for its correct completion. It should be prepared after the sector indicators framework has been established or in parallel.

3.5.3. PERFORMANCE INDICATORS

The methods and approaches used for the choice and design of the set of indicators shall also consider the 5 ACT questions on commitment, plans, current performance, past performance and consistency. For example, the 'horizon gap' and the 'action gap' indicators, which compare the company's targets with the sector benchmark target, will contribute to producing an answer to the commitment question.

The choice and design of the set of indicators shall comply with the ACT Framework, namely the 9-module frame (see Framework for more details).

Specific sector characteristics (data availability, boundaries, etc.) should be considered when developing the performance indicators. In some cases, certain modules may be irrelevant. When a module is deemed irrelevant, no indicator will be developed for the module and the module weighting shall be set at zero (See 3.6.3 *Weightings*).

→FOR EXAMPLE

In the case of Electricity, the sold product performance module is irrelevant, while it is of major importance in the Retail and Auto sectors.

The performance indicators paragraph shall include a summary of the indicators used by the sector methodology in a table format as well as a detailed description including the formulas and methods used for each indicator.

The detailed description of each performance indicator shall be structured as follows:

- ◆ **Title of the indicator**
- ◆ **Description and requirements:**
 - Short description of the indicator
 - Data requirements
 - How the assessment will be done (formula or maturity matrix)
- ◆ **Rationale**
 - Relevance of the indicator
 - Scoring rationale
 - Additional information, if needed

→FOR EXAMPLE

• AU 4.1 FLEET EMISSIONS PATHWAY

DESCRIPTION & REQUIREMENTS

AU 4.1 FLEET EMISSIONS PATHWAY

SHORT DESCRIPTION OF INDICATOR

A measure of the alignment of the company’s sold WTW fleet emissions intensity with its decarbonization pathway. The indicator will identify the gap in the reporting year between the company’s new product performance and that required by the decarbonization pathway as a percentage, which is expressed as the company’s ‘action gap’.

DATA REQUIREMENTS

The questions comprising the information request that are relevant to this indicator are:

- ◆ AU 2A
- ◆ AU 4A

External sources of data used for the analysis of this indicator are:

- ◆ IEA ETP [5] – background scenario data
- ◆ SDA [6] – specific benchmark pathway definition
- ◆ SBTi [3] – specific benchmark pathway conversion into passenger.km
- ◆ ICCT [8] – default modelling parameters
- ◆ IPCC [10] – technology level data

The benchmark indicators involved are:

TARGET TYPE	PARAMETER	INTENSITY METRIC	BENCHMARK
Fleet emissions	CB_{FL}	gCO2/p.km	IEA [5], SDA [6], SBTi [3]

HOW THE ANALYSIS WILL BE DONE

The analysis is based on the difference between the company’s action over the 5 years previous to the reporting year (A_{FL}) and the company benchmark ($CB_{FL,-5years}$) that was applicable 5 years before the reporting year.

The company action pathway (A_{FL}) is benchmarked on WTW emissions from car use. This is expressed as the emissions intensity (gCO2e/pkm) of PLDVs over the previous 5 years. Sales are converted from the number of

PLDVs sold to pkm using country-level average passenger density and travel distance factors.

The company benchmark ($CB_{FL,-5years}$) pathway is the ‘company specific decarbonization pathway’ that was applicable 5 years before the reporting year. See *section 6. Assessment* for details on the computation of this pathway.

The analysis compares A_{FL} to $CB_{FL,-5years}$ by examining the difference between these pathways in the reporting year. The result of the comparison is the action gap.

CALCULATION OF THE SCORE

To assign a score to this indicator, the size of the action gap is compared to the maximum action gap, which is defined by the business-as-usual pathway based on the company performance 5 years before the reporting year ($BAU_{FL,-5years}$). $BAU_{FL,-5years}$ is defined as an unchanging (horizontal) intensity pathway, whereby the emissions intensity is constant after this initial year.

$$\text{Fleet emissions action gap} = \frac{A_{FL} - CB_{FL,-5years}}{BAU_{FL,-5years} - CB_{FL,-5years}}$$

$$\text{Score} = 1 - \text{Future emissions action gap}$$

The score assigned to the indicator is equal to 1 minus the action gap and is expressed as a percentage (1 = 100%). Therefore, if $A_{FL} - CB_{FL,-5years}$ is equal to zero, and the company’s target is thus aligned with the sectoral benchmark, the maximum score is achieved.

RATIONALE

AU 4.1 FLEET EMISSIONS PATHWAY

RATIONALE OF THE INDICATOR

RELEVANCE OF THE INDICATOR:

The (WTW) fleet emissions pathway is included in the ACT assessment for the following reasons:

- ◆ Recent emissions intensity performance indicates the company’s progression towards, or away from, the future emissions intensity necessary for the sector to decarbonize in-line with a low-carbon scenario.
- ◆ In the automotive manufacturing sector, emissions from the use of sold products (i.e. WTW fleet emissions) far outweigh Scope 1+2 emissions.

SCORING RATIONALE

This indicator is where the principal ‘action gap’ between the company’s actions and the benchmark is assessed. Ideally, this would be done on a future date, whereby the company’s sales projections would dictate the company’s pathway. However, because of the volatility of the auto market and the confidentiality/uncertainty of such data, this is not a very robust approach. While it may be possible to do with improvements on data availability, we are aiming to use more available past data. Therefore, the benchmark that companies are assessed on for this particular indicator also starts 5 years prior to the reporting year, and not in the reporting year itself as with the Targets indicator.

To ensure comparability of the scores and replicability of the measurement, WTW fleet emissions are compared to the benchmark at a fixed point in time, similar to all companies. This is necessary because the method interprets linear trendlines from company data, while the decarbonization pathways from the benchmark are nonlinear. Therefore, the measurement gaps would vary over time if the time of measurement was not constant.

As the reporting year is the most recent year of data, this is the base-year chosen for measurement of the score.

3.6. ASSESSMENT

The Assessment chapter presents the sector benchmark, the quantitative benchmarks used for the indicators, as well as the module and indicator weightings for the sector.

3.6.1. SECTOR BENCHMARK

The Sector benchmark section presents the quantitative and qualitative benchmarks for the sector assessment.

Sector benchmarks shall rely on relevant, acceptable and credible low-carbon scenarios. The spatial boundaries of the methodology shall correspond to the global, regional or national geographic perimeter of the scenario.

As far as no available alternative and better benchmarks exist for the sector, the allocation mechanisms defined by the Sectoral Decarbonization Approach (SDA², Krabber *et al.*, 2015³) shall be used for the definition of the quantitative benchmarks as a default. The SDA approach assumes that the company's GHG emissions intensity should converge to the sector benchmark emissions intensity on the target year.

In the absence of established sector benchmarks, new standards based on science and best practices shall be designed. Because a sector may include different segments corresponding to different types of activities, more than one benchmark may need to be selected or developed for the sector.

Qualitative benchmarks shall be based on the same background scenarios as quantitative benchmarks.

3.6.2. QUANTITATIVE BENCHMARKS USED FOR THE INDICATORS

In this section, the default sectoral benchmarks are listed in a table format, including for each of them:

- ◆ The corresponding parameter
- ◆ The indicator in which it is used
- ◆ The source

→FOR EXAMPLE

For the Electricity sector:

TABLE 4: BENCHMARKS FOR THE QUANTITATIVE INDICATORS

BENCHMARK	PARAMETER	SOURCE	INDICATOR RELEVANCE
Company benchmark for Generation emissions	CBG	IEA [4], SDA [5]	EU 1.1, EU 2.1, EU 2.2, EU 2.3
Quantiles of statistic average lifetime of the company assets weighted by generation capacity	Qw,1st, Mw, Qw,3rd	ACT	EU 1.2
R&D benchmark for EU industry	BRD	Ecofys-WWF [11]	EU 3.1

² "Sectoral Decarbonization Approach (SDA): A method for setting corporate emissions reduction targets in line with climate science", Science Based Targets Initiative, 2015

³ Krabber *et al.* (2015) describe the assumptions used to translate emissions pathways into intensity targets for company reference.

3.6.3. WEIGHTINGS

The Weightings section presents the weighting of each module and each indicator for the sector methodology. A structured table shall list the modules and indicators applicable to the sector and the related weightings.

The weighting shall be set according to the general principles and recommendations of the ACT Framework. As a rule of thumb, the following guidelines and ranges should be followed:

TABLE 1: CRITERIA FOR THE DEFINITION OF THE MODULES WEIGHTINGS

MODULES - CRITERIA	WEIGHTING RANGE	EXAMPLES
The sector modules holding the highest climate impact or climate reduction potential should be given relatively high weights in order to concentrate the rating on the aspects that can contribute (or not) to a low-carbon transition	20% - 35%	<ul style="list-style-type: none"> - Material investment for sectors where owned assets represent the highest source of emissions (e.g. Electric Utilities, Buildings operation ...) - Sold product performance for sectors where the most important climate challenges are located either upstream (e.g. Retail) or downstream (e.g. Auto manufacturing)
Modules that are of similar importance across sectors by nature should carry a fixed weight across all sectors	Target: 15% Management: 10% Business model: 10%	<ul style="list-style-type: none"> - Except for sectors with specific intrinsic difficulties (e.g. the Target weighting for Retail is reduced to 10%)
The remaining modules (Intangible investments, Supplier engagement and Client engagement, Policy engagement) should be weighted according to the sector specific leverage	1%– 10%	<ul style="list-style-type: none"> - Supplier engagement is weighted 10% for Retail, as it is the main lever of influence along the value chain.
Modules that are not relevant for the sector should carry a weight of 0%	0%	<ul style="list-style-type: none"> - Sold product performance for Electricity

If considered more appropriate than the above guidelines and ranges, the TWG may propose an alternate approach for the setting of the modules and justify it.

3.7. RATING

The Rating chapter provides a synthetic presentation of the ACT rating principles, which are thoroughly described in the ACT Framework.

The sector methodology shall concentrate on the identification of the sector-specific issues that need to be considered for the rating.

If results from pilot assessments of companies in the sector are available, the resulting feedback should be used to identify and describe the sector specificities.

3.7.1. PERFORMANCE SCORING

The Performance scoring section presents the sector specificities that impact the performance scoring.

3.7.2. NARRATIVE SCORING

The Narrative scoring section presents the sector specificities that impact the narrative scoring. The sector specificities may have an influence on the respective importance of the criteria considered for the analysis.

→FOR EXAMPLE

The maturity matrix on narrative scoring criteria presented in the ACT Framework may be specifically adapted to the sector under consideration.

3.7.3. TREND SCORING

The Trend scoring section presents the sector specificities that impact the trend scoring. It shall list the performance indicators that help the analyst to set the trend score.

3.8. ALIGNED STATE

The Aligned state chapter presents the responses of a low-carbon aligned company in the sector to the 5 questions of ACT:

- What is the company planning to do? [Commitment]
- How is the company planning to get there? [Transition Plan]
- What is the company doing at present? [Present]
- What has the company done in the recent past? [Legacy]
- How do all of these plans and actions fit together? [Consistency]

→FOR EXAMPLE

In the Auto manufacturing sector:



FIGURE 1: AUTO MANUFACTURING ALIGNED STATE

3.9. SOURCES

The Sources chapter lists all the sources that were used for the development of the sector methodology or that are relevant with respect to the methodology.

3.10. GLOSSARY

The Glossary chapter presents the list and definition of the specific or technical words and acronyms used in the sector methodology.

4. Validation phase

4.1. CONSULTATIONS OF THE TWG

The TWG shall organize technical consultations of the TWG members during the development phase.

The duration of each consultation shall be set by the TWG and it shall not be shorter than two working weeks. The feedback gathered from these consultations shall be recorded in a table that should clearly mention, for each comment, the name of the reviewer and associated answers.

If the review gives rise to one or more formal objections from TWG members, the TWG must try to resolve the problem. If all objections from the TWG members have been solved at this stage, there is consensus. If resolving one or more objections proves impossible, the TWG shall present the differences of opinion, in the form of comments appended to the methodology and addressed to the Board depending on the nature of the objection. The Board shall arbitrate between the options presented.

Throughout the development process, the challenging topics that generated debates shall be documented to keep track of the resolution or decision process.

4.2. SUBMISSION PROCEDURE

There is consensus if there is general agreement, characterized by the absence of sustained opposition to substantial issues, and if a process that involves considering the views of all parties concerned and reconciling any conflicting arguments has been implemented.

→NOTE

Consensus does not imply unanimity [EN 45020:2007 Standardization and related activities. General vocabulary].

The ACT sector methodology shall be submitted by the TWG when consensus has been achieved within the TWG. Submission consists of both council review and public consultation. Council review and public consultation may be conducted in parallel.

4.2.1. COUNCIL REVIEW

The developed methodology shall be sent to each Council member for review.

The duration of the review shall be set by the Council and it shall not be shorter than four working weeks. The feedback gathered from these consultations shall be recorded in a table that should clearly mention, for each comment, the name of the reviewer and associated answers.

If the Council does not include relevant expertise and skills for the review, the Board may alternatively choose external experts to review the document.

4.2.2. PUBLIC CONSULTATION

The developed methodology shall be sent for public consultation.

The duration of the public consultation shall be set by the TWG and it shall not be shorter than four working weeks. The feedback gathered from the public consultation shall be recorded in a table that should clearly mention, for each comment, the name of the reviewer and associated answers.

4.3. VALIDATION PROCEDURE

If resolving one or more comments within the TWG proves impossible, the TWG shall present the options to the Board. The Board shall arbitrate between the options presented. The TWG shall modify the sector methodology according to the outcomes of the public consultation and Council review.

The TWG shall send to the Board for final validation:

- ◆ the sector methodology;
- ◆ the list of comments and associated answers;
- ◆ a two-page summary that defines the key points of the sector methodology. The summary should facilitate the methodology assessment.

The Board validates the sector methodology by considering:

- 1.** the general quality of the methodology;
- 2.** the methodology's compliance with the ACT Framework;
- 3.** the development procedure led by the TWG, including:
 - the responses to all comments (from the Council review and public consultation);
 - any changes made by the TWG on the sector methodology.

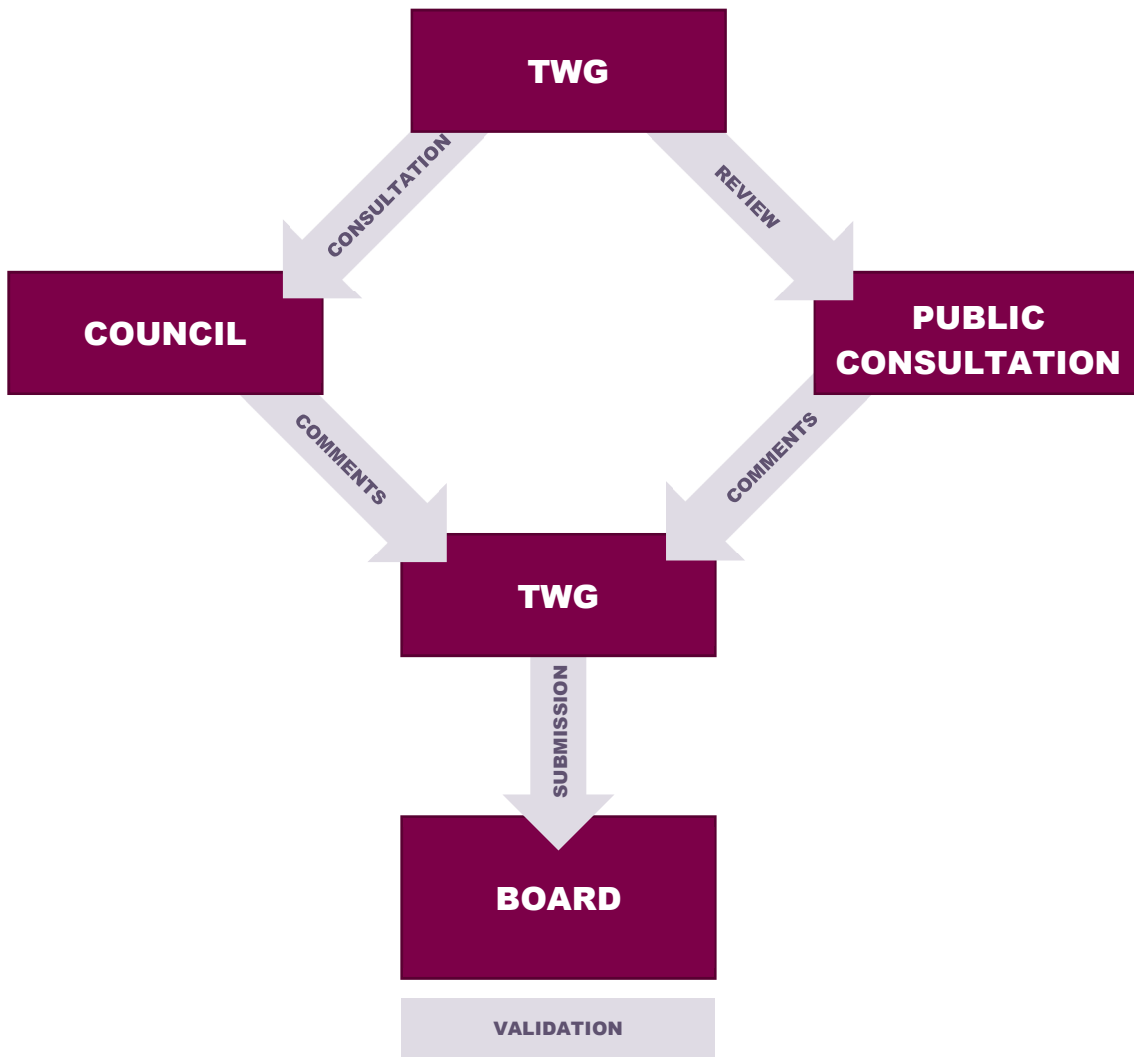


FIGURE 2: VALIDATION PROCEDURE OF A SECTOR METHODOLOGY

4.4. VALIDITY AND REVISION

The first revision of a sector methodology shall be carried out after 3 years. Further revision will be done every 5 years. Each revision may lead to the update of the methodology.

The Board may decide to revise the sector methodology or withdraw it from the ACT methodologies portfolio.