EEI ESG Template
Accounting Standards Committee Meeting
San Diego, CA

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Randall Hartman – Director, Accounting – EEI

May 22, 2018
Agenda

- Background on ESG/Sustainability
- Industry Initiatives on ESG/Sustainability
- Stakeholder Engagement
- Looking Ahead
Background on ESG/Sustainability
ESG/Sustainability Awareness

- Are you aware of your company’s ESG reporting?
  - Environmental reports
  - Corporate/social responsibility report
  - Surveys

- Are you aware of the EEI ESG/Sustainability initiative and template?

- Has your company been impacted by ESG-related proxy proposals?

- To what extent are you involved with your company’s ESG/Sustainability reporting?
Level-Setting
What do E, S, & G Mean?

Environmental
- Greenhouse gases
- Air quality
- Coal ash
- Water stewardship
- Energy efficiency
- Supply-chain impacts

Social
- Community impacts
- Economic contributions
- Health & safety
- Grid reliability
- Lobbying

Governance
- Board diversity
- Board experience
- Independence
- Incentives & compensation
- Tax strategy

Source: PwC U.S. Power & Utilities team
Electric Company Reporting on ESG / Sustainability

Number of Companies and Level of Reporting

- Comprehensive: 38 (76%)
- Minimal: 6 (12%)
- None: 6 (12%)

Keyword Occurrence in Report Titles (out of 38 reports)

- Sustainability: 23 (53%)
- Responsibility: 9 (21%)
- Environment: 5 (12%)
- Citizenship: 3 (7%)
- Commitment: 1 (2%)
- Stewardship: 1 (2%)
- Accountability: 1 (2%)

Report Content

- Economic: 17%
- Social: 46%
- Environment: 37%

Number of Companies and Level of Reporting

- Comprehensive: 38 (76%)
- Minimal: 6 (12%)
- None: 6 (12%)

Year of Most Recent Report (comprehensive reports)

- 2012: 1
- 2013: 1
- 2014: 11
- 2015: 17
- 2016: 8

Number of Companies Using a Common Reporting Framework

- GRI: 21 (55%)
- None: 17 (45%)

Length of Reports (by page count)

- < 20: 3
- 20-40: 8
- 41-60: 11
- 61-80: 7
- 81-100: 2
- 101-125: 2
- 126-150: 4
- 151-175: 1
- > 175: 1

Note: Data is current as of August 2016.
Disclosure / Divestiture Initiatives on the Rise

New York State Pension Fund's Comptroller Wants OGE to Boost DG

Administration Urging SEC to Require More Climate Disclosure

BlackRock, Vanguard Push for Climate-aware Investments

CERES, SASB, and Others Press for Additional SEC Reporting Requirements

California Insurance Commissioner Asks Insurers to Exit Thermal Coal Investments

SASB Develops “Voluntary” Reporting Guidelines

Norway's Government Pension Fund Excludes 52 Coal Companies and Drops all of its Duke Energy Shares Over Coal Ash Basins
Shareholders Are Becoming More Active on ESG Issues
Results of IOU Shareholder Proposals in 2017

9 of the 23 (39%) shareholder proposals were related to “Two Degree” reporting. Despite being the first year many were introduced, the Two Degree proposals received significant votes in favor and was accepted by shareholders of one member company.

Notes:
* Only four results charted because one proposal was withdrawn prior to shareholder meeting after discussion with company.
** ExxonMobil and Occidental Petroleum had Two Degree shareholder proposals pass in 2017. XOM and OXY are shown for information only and not included otherwise.
Source: Member Company Survey, Proxy Monitor, SEC.
## Withdrawn Proxy Proposals in 2018

<table>
<thead>
<tr>
<th>EEI Member Company</th>
<th>ESG Activist</th>
<th>Type of Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEP</td>
<td>New York State Comptroller</td>
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</tr>
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<td>Seventh Generation Interfaith</td>
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</tr>
<tr>
<td>ConEd</td>
<td>Friends Fiduciary Corporation</td>
<td>Report on Lobbying</td>
</tr>
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<td>Dominion Energy</td>
<td>New York State Comptroller</td>
<td>2D Scenario Analysis</td>
</tr>
<tr>
<td>DTE Energy</td>
<td>As You Sow</td>
<td>Methane Reduction Targets</td>
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</tr>
<tr>
<td>Duke Energy</td>
<td>As You Sow</td>
<td>Report on Coal Risks</td>
</tr>
<tr>
<td>Exelon</td>
<td>As You Sow</td>
<td>Methane Reporting</td>
</tr>
<tr>
<td>FirstEnergy</td>
<td>As You Sow</td>
<td>2D Scenario Analysis</td>
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<td>The Nathan Cummings Foundation</td>
<td>Report on Lobbying</td>
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<td>Seventh Generation Interfaith</td>
<td>2D Scenario Analysis</td>
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</table>
Time Spent Responding to ESG Data Providers can be Significant

Notes: Some companies indicated additional hours were spent on ESG reporting although not included in these totals.
Source: EEI Member Company Survey
ESG is Emerging as a Mainstream Investment Theme

Source: US SIF Foundation, GSI Alliance
Investors are focused on risk – and lack confidence in reporting

Why is ESG important to you?

Q: If ESG is important in equity investment decision making, why is it important? Because ESG creates value by; If ESG is important to your company’s strategy, why is it important? Because ESG creates value by:

Base: 28

How confident are you in the quality of ESG information you report or receive?

29% Investors

Q: How confident are you in the quality of the ESG information you are reporting? Are you confident in the quality of the ESG information you’re receiving from the companies in which you invest?

Base: 28
Industry Initiatives on ESG / Sustainability
There Was a Need for Action on ESG Reporting

- **Shareholder activism**
  - Proxy initiatives

- **ESG investment themes**
  - PGGM Vermogensbeheer and Norges Bank Investment Management, both European companies, sent letters to utilities expressing their intent to divest holdings due to coal assets

- **Fixed income investors also impacted**
  - The California Insurance Commissioner called for the insurance industry to divest itself of the coal industry

- **Numerous rating agencies and investors are developing ratings for companies based on their ESG assessments**
  - The Sustainability Accounting Standards Board (SASB) was established in 2011
  - The SASB has the appearance of an official body but is not affiliated with any government agency.
  - While the SASB has no standard-setting authority, it has a goal to develop and disseminate industry-specific standards.
  - Key concerns with the SASB, as expressed by EEI and other industry groups on its exposure drafts, have been a perceived lack of
    - A transparent, market-informed or balanced approach to standard setting, and
    - A process that will facilitate material, decision-useful, or cost-effective disclosures.

- **There is an active debate regarding a common standard for ESG reporting and where that reporting should be disclosed.**
Regulated Electric Companies are Different

**Gender Diversity in the Boardroom**

- **Regulated Electric Companies**
  - Male CEOs: 77.8%
  - Female CEOs: 22.2%
- **Fortune 500 Companies**
  - Male CEOs: 93.6%
  - Female CEOs: 6.4%

**Cleaner National Fuel Mix**

- **2007**
  - 48.5% Coal
  - 21.6% Natural Gas
  - 19.4% Nuclear
  - 6.0% Hydro
  - 2.5% Non-Hydro Renewables
- **2017P**
  - 31.7% Natural Gas
  - 30.1% Coal
  - 20.0% Nuclear
  - 7.4% Hydro
  - 9.6% Non-Hydro Renewables
  - 0.5% Other

**US Electric IOUs Credit Rating History**

- **2002**
  - BBB: 19%
  - BBB+: 13%
  - BBB: 16%
  - BBB+: 25%
  - BBB: 9%
  - BBB+: 18%
  - BBB: 18%
  - BBB+: 8%
- **2009**
  - BBB: 12%
  - BBB+: 23%
  - BBB: 21%
  - BBB+: 29%
  - BBB: 10%
  - BBB+: 8%
  - BBB: 8%
  - BBB+: 2%
- **2016**
  - BBB: 24%
  - BBB+: 40%
  - BBB: 18%
  - BBB+: 10%
  - BBB: 8%
  - BBB+: 2%

**Sector Beta vs. S&P 500**

- Consumer Discretionary: 0.60
- Consumer Staples: 1.00
- Energy: 1.29
- Financials: 0.99
- Health Care: 1.07
- Industrials: 1.17
- Materials: 0.69
- Technology: 1.00
- Utilities: 0.25

**Movement Relative to Market**

- Low
- Movement Relative to Market
- High

Source: AltaVista Research LLC (June 2017).

Source: Department of Energy, Energy Information Administration.

Note: Chart percentages are based on net generation data.
At the direction of Member Company CEOs, EEI is working with stakeholders to provide guidance on the aspects of voluntary ESG / Sustainability reporting that are most relevant to investors.

EEI has assembled a broad working group of institutional utility investors and Member Company experts to identify and refine these reporting aspects.

The following EEI groups were created for the ESG / Sustainability issue:

- ESG / Sustainability Member Group
- ESG / Sustainability Steering Committee
- ESG / Sustainability Investor Group

Some of the institutional investors already engaged include:

- Barclays
- BlackRock
- Capital Group
- Citi
- Deutsche Bank
- Fidelity
- Goldman Sachs
- John Hancock
- JP Morgan
- Lazard
- Morgan Stanley
- TIAA
EEI ESG/Sustainability Timeline

- Issue Identified through Wall Street Outreach
- Industry Outreach to Investors and Other Stakeholders
- Steering Committee Meeting at EEI offices in DC
- Investor and Member Feedback on EEI Template
- Steering Committee Meeting with Investors in NYC
- Subset of Members Complete “Internal Pilot”
- Steering Committee Meeting with Investors in NYC
- Member Companies Release “Public Pilot” to Investors
- Steering Committee Meeting with Investors in NYC
- Member Companies Release “Version 1” to Investors
- Begin Work on “Version 2” of the Template
Development of the Template

- **Perception**
  - More reporting is better than less
  - Large quantities of data

- **Reality – investors are focused on**
  - A few key metrics – less is more
  - Easy to find
  - Comparable and consistent across companies and periods

- **Investors versus Issue Activists**
## ESG/Sustainability Template

The ESG/Sustainability Steering Committee has identified **5 areas of focus** based on discussions with investors

### Qualitative

<table>
<thead>
<tr>
<th>ESG/Sustainability Governance</th>
<th>Management and oversight of ESG/Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG/Sustainability Strategy</td>
<td>Practices, programs, and initiatives designed to support the company’s transition to a lower carbon and increasingly sustainable energy future</td>
</tr>
</tbody>
</table>

### Quantitative

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>An Excel-based data reporting template that is customized for electric companies to include metrics on owned and/or purchased generation data by technology/resource type, as well as other metrics related to capital investments, emissions, and natural and human resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions</td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td></td>
</tr>
</tbody>
</table>

Note: data for these areas should include as much historical, current, and forward-looking information as is appropriate.
Version 1 Updates

- **Qualitative**
  - Investors want more forward-looking information – companies are encouraged to provide goals and targets if possible
  - “Elevator pitch” favored by investors over providing links
  - Alignment with TCFD recommendations

- **Quantitative**
  - Future years – targets versus projections
  - More flexible and less prescriptive metric definitions
  - Upload quantitative section in Excel rather than PDF
  - Op Co level detail is encouraged – iterations on separate sheets within Excel file
  - Gas LDC metrics – Methane already included, but we may add 1-2 additional LDC metrics (e.g., pipeline replacement)
EEI Member Company Pilot Participants

1. AEP
2. Alliant Energy
3. Ameren
4. DTE Energy
5. Duke Energy
6. Edison International
7. Entergy
8. Eversource Energy
9. Great Plains Energy
10. NiSource
11. PG&E
12. Pinnacle West (APS)
13. PPL
14. PSEG
15. Southern Company
16. UNS Energy (TEP)
17. WEC Energy Group
Stakeholder Engagement
EEI ESG Sustainability: Investor Engagement & Stakeholder Outreach

**Investors**
Continue to expand

**Related Trade Groups**
API, IPIECA (petroleum)
AGA, APPA, NRECA (electric & gas)

**Credit Rating Agencies**
Moody’s, S&P, Fitch

**Proxy Services**
Institutional Shareholder Services (ISS), Glass, Lewis & Co, Egan-Jones Proxy Services, etc.

**ESG Data Providers**
Sustainalytics, MSCI, Bloomberg, RobecoSAM, Trucost, etc.

**Interest Groups**
Ceres, SASB, etc.
Task Force on Climate-Related Financial Disclosures (TCFD) Scenario Analysis
Power Sector Perspective

- What is scenario analysis?
  - Help investors understand the impact of climate change on the financial performance and operations of a company
  - Strategic risk management tool; not predictive
  - Tool for testing the resilience of a strategy for different futures; need to run multiple scenarios

- Power sector response
  - Develop medium- and long-term reduction goals
  - Accompanying scenarios analysis/IRPs
  - Examine economy-wide approaches to meeting state-wide goals through electrification
## EEI Member Company GHG Reduction Goals (as of April 20, 2018)

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>GHG REDUCTION GOALS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AEP</strong></td>
<td>• 60% below 2000 levels by 2030</td>
</tr>
<tr>
<td>(February 2018)</td>
<td>• 80% below 2000 levels by 2050</td>
</tr>
<tr>
<td><strong>AES</strong></td>
<td>• Reduce carbon intensity 50% from 2016 to 2030</td>
</tr>
<tr>
<td>(April 2018)</td>
<td></td>
</tr>
<tr>
<td><strong>Alliant</strong></td>
<td>• 40% below 2005 by 2030</td>
</tr>
<tr>
<td>(August 2017)</td>
<td></td>
</tr>
<tr>
<td><strong>Ameren</strong></td>
<td>• 35% below 2005 levels by 2030</td>
</tr>
<tr>
<td>(September 2017)</td>
<td>• 50% below 2005 levels by 2040</td>
</tr>
<tr>
<td><strong>Avangrid</strong></td>
<td>• Reduce emissions intensity 25% by 2020 (compared to a 2015 baseline)</td>
</tr>
<tr>
<td>(2016)</td>
<td>• 100-percent carbon neutral by 2035</td>
</tr>
<tr>
<td><strong>CMS Energy</strong></td>
<td>• 80% by 2040</td>
</tr>
<tr>
<td>(February 2018)</td>
<td></td>
</tr>
<tr>
<td><strong>Duke Energy</strong></td>
<td>• 40% below 2005 levels by 2030</td>
</tr>
<tr>
<td>(March 2018)</td>
<td></td>
</tr>
<tr>
<td><strong>DTE Energy</strong></td>
<td>• 30% below 2005 levels by the early 2020s</td>
</tr>
<tr>
<td>(May 2017)</td>
<td>• 45% below 2005 levels by 2030</td>
</tr>
<tr>
<td><strong>Entergy</strong></td>
<td>• 20% below 2000 levels through 2020</td>
</tr>
<tr>
<td><strong>Exelon</strong></td>
<td>• Eliminate 17.5 MMT of CO2-e emissions annually through 2020#</td>
</tr>
<tr>
<td><strong>First Energy</strong></td>
<td>• 90% below 2005 levels by 2045</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>GHG REDUCTION GOALS</th>
</tr>
</thead>
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<tr>
<td><strong>Minnesota Power</strong></td>
<td>• 30% below 2005 levels by 2025</td>
</tr>
<tr>
<td><strong>National Grid</strong></td>
<td>• 45% below 1990 levels by 2020</td>
</tr>
<tr>
<td><strong>PG&amp;E</strong></td>
<td>• 30% below 2005 levels by 2020</td>
</tr>
<tr>
<td><strong>PNM Resources</strong></td>
<td>• 40% below 2012 levels by 2018</td>
</tr>
<tr>
<td>(April 2017)</td>
<td>• 60% below 2012 levels by 2030</td>
</tr>
<tr>
<td><strong>Portland General Electric</strong></td>
<td>• 75% below 1990 levels by 2050*</td>
</tr>
<tr>
<td>(February 2018)</td>
<td></td>
</tr>
<tr>
<td><strong>PPL</strong></td>
<td>• 70% below 2010 levels by 2050</td>
</tr>
<tr>
<td>(January 2018)</td>
<td></td>
</tr>
<tr>
<td><strong>Southern California Edison</strong></td>
<td>• 40% below 1990 levels by 2030*</td>
</tr>
<tr>
<td>(October 2017)</td>
<td>• 80% below 1990 levels by 2050*</td>
</tr>
<tr>
<td><strong>Southern Company</strong></td>
<td>• 50% below 2007 levels by 2030</td>
</tr>
<tr>
<td>(April 2018)</td>
<td>• Low- to no-carbon operations by 2050</td>
</tr>
<tr>
<td><strong>TVA</strong></td>
<td>• 60% below 2005 levels by 2020</td>
</tr>
<tr>
<td><strong>WEC Energy Group</strong></td>
<td>• 40% below 2005 levels by 2030</td>
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<tr>
<td>(2016)</td>
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</tr>
<tr>
<td><strong>Xcel Energy</strong></td>
<td>• 60% below 2005 levels by 2030</td>
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<td>(2016)</td>
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</tbody>
</table>

# – Revised goal established in 2012 following completion of 2008 goal.
* – Reflects or is in line with state-wide, economy-wide GHG reduction targets
TCFD & Scenario Analysis – Lessons Learned

- Use as opportunity to look across company
- Marathon, not a sprint
- Infinite number of pathways
- Keep stakeholders informed
- Materiality and *materiality*
- EEI template is a valuable tool
Looking Ahead
Financial Reporting Implications

- Low priority for SEC under current administration
- Data integrity and consistency
  - Financial reports
  - Other environmental/social responsibility reports
  - Surveys and data requests from outside groups
- Documentation
- Processes and controls
- Audit/verification
Next Steps

- Q2 2018 Launch formal ESG/Sustainability Committee
- Q3 2018 Launch of Version 1
- Expand EEI Template to encompass natural gas use
- EEI ESG Template to be used on Bloomberg terminals worldwide
- Continued engagement with institutional investors and international holders
- Work on Version 2
Questions?

Thank you!