

# ESG/Sustainability White Paper November 2018

## Introduction and Summary

Environmental, social, governance, and sustainability (ESG/sustainability) factors, once considered a niche investment topic, are now an important consideration in the mainstream investment community. The implementation of sustainable, long-term investment strategies is not a new practice, but, in recent years, the assessment of ESG/sustainability factors has grown in significance for the global investment community.

Most large companies now report ESG information to investors and other stakeholders using a variety of voluntary reporting frameworks that were developed to address all ESG stakeholder concerns for every industry and in any country. The Edison Electric Institute (EEI) and its member companies have led the way in differentiating and focusing on the needs of investors by developing the first and only industry-focused and investor-driven reporting template for ESG and sustainability-related information. The EEI ESG/sustainability template encourages voluntary reporting of ESG/sustainability information in both quantitative and qualitative formats specifically based on investor input.

Electric company business models are evolving and are incorporating ESG factors into their long-term strategies, and the EEI ESG/sustainability template enables companies to present their sustainability stories in an accurate, timely, and concise manner that is favored by investors. EEI companies piloted these disclosures in late 2017 and early 2018, and Version 1 of the EEI ESG/sustainability template was released in August 2018. The results of the enhanced disclosure for EEI member companies using the pilot version of the EEI ESG/sustainability template and engagement with investors were evident in the 2018 proxy season, with 17 ESG-related proxy proposals withdrawn by the proponents who initiated them. This white paper briefly discusses the process of developing industry-focused and investor-driven ESG/sustainability reporting practices.

## The EEI ESG/Sustainability Template

Companies that voluntarily report using the EEI ESG/sustainability template share a common goal to provide investors with relevant information that:

- Allows integration of ESG/sustainability data and performance.
- Provides clarity about risks (e.g., stranded assets, regulatory issues, etc.) and opportunities (e.g., investments in renewable energy, etc.) and how they are being managed.
- Provides insight into growth strategy, assumptions, and future trajectory.
- Provides both qualitative and quantitative information.
- Serves as a primary reporting channel for consolidated ESG/sustainability information relevant to investors and other stakeholders.

The EEI ESG/sustainability template is divided into two sections: (1) a brief qualitative discussion around a company's ESG/sustainability governance and strategy, and (2) a set of quantitative metrics provided in a Microsoft Excel spreadsheet, as outlined and defined below.

## **Qualitative**

- ESG/Sustainability Governance: Management and oversight of ESG/sustainability.
- ESG/Sustainability Strategy: Practices, programs, and initiatives designed to support the company's transition to a lower carbon and increasingly sustainable energy future.

## **Quantitative**

- Portfolio: An Excel-based data reporting template that is customized for regulated electric companies to include metrics on owned and/or purchased generation data by technology/resource type, as well as other metrics, such as capital investments. Data for these areas should include as much historical, current, and forward-looking information as is appropriate for each company.
- Emissions: The data reporting template also contains a section focused on emissions.
- Resources: The data reporting template also contains a section focused on human resources and natural resources.

The Excel spreadsheet includes a 'Definitions' page to define each metric, specify units of measure, and provide a source for each definition. To the extent possible, this page was developed using definitions that generally are accepted in the industry already. EEI utilized efforts already undertaken by the Electric Power Research Institute's Energy Sustainability Interest Group (ESIG) by including common definitions that were agreed upon through an in-depth stakeholder process.

EEI encourages companies to complete the template in the third quarter (3Q) of each year consistently to provide investors with information from the prior calendar year (e.g., companies provide investors with calendar year 2017 data in 3Q 2018). Although 3Q is typically the earliest timeframe when most companies can produce the final quantitative data on an annual basis, investors prefer this information sooner in the year, so companies also are encouraged to complete the template earlier in the year if possible.

For the ultimate users of this data, it is important to note that the emissions data contained in each template relates only to the particular company filling it out. Since the template allows the reporting of both generation and purchased power, emissions from one entity's generation could be reflected as purchased power in another entity's report. Therefore, it is not possible to aggregate the various reports to determine total sector emissions, as doing so would overstate the total emissions for the participating companies.

*Note on Materiality:* ESG information has the potential to impact long-term sustainability. Financial materiality, in contrast, is a threshold for identifying aspects of reported financial information that are significant in influencing the investment decisions of investors. EEI and its member companies do not necessarily consider all ESG/sustainability information to be financially material and intend the ESG/sustainability information provided in the EEI ESG/sustainability template to be supplemental to the material financial information that has been, and continues to be, provided under U.S. Securities and Exchange Commission (SEC) reporting requirements. To the extent that any ESG information is considered financially material by an individual company, such information already would be captured in the appropriate SEC-required financial reporting by that company.

## **Member Company Collaboration with Investors**

To develop industry-focused and investor-driven ESG/sustainability reporting practices, EEI assembled a broad working group consisting of two subgroups: the ESG/Sustainability Member Committee and the ESG/Sustainability Investor Group.

- The ESG/Sustainability Member Committee is comprised of EEI member company officials from various disciplines, including accounting, environment, ESG/sustainability, finance, treasury, investor relations, and legal. EEI's Board of Directors, consisting of member company CEOs, provides support by mobilizing their employees to engage with and participate in this committee. The cross-disciplinary nature of this committee was vital in developing a robust reporting template that covered all aspects of ESG and sustainability.
- The ESG/Sustainability Investor Group is comprised of finance sector specialists working in asset management, ESG/sustainability, and investment banking, as well as buy-side and sell-side analysts. The institutional investors who participate in this group are consequential in determining what ESG and sustainability-related information is of interest to the investment community. Engagement with this group provided the foundation for what the EEI ESG/sustainability template is today.

## Stakeholder Engagement

EEI and its member companies are engaging with key stakeholders working in the ESG/sustainability space – educating them on the electric power industry's ESG activities, soliciting their feedback on the EEI ESG/sustainability template, and inviting them to participate in the template development process, including working group meetings. These stakeholders include:

- Organizations involved in the development of ESG/sustainability reporting frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and CDP (formerly the Carbon Disclosure Project).
- Companies engaged in ESG/sustainability reporting and/or ratings such as Bloomberg, IHS Markit, MSCI, S&P Global Market Intelligence, Sustainalytics, and TruCost.
- Major credit ratings agencies including Fitch, Moody's, and Standard & Poor's.
- Other business and energy groups and associations, including the American Gas Association (AGA), American Petroleum Institute (API), American Public Power Association (APPA), Business Roundtable, Chamber of Commerce, Electric Power Research Institute (EPRI), International Petroleum Industry Environmental Conservation Association (IPIECA), and National Rural Electric Cooperative Association (NRECA).
- Proxy service firms such as Institutional Shareholder Services (ISS) and Glass Lewis.
- ESG/sustainability advocacy groups such as Ceres.

## EEI ESG/Sustainability Template Development Process

When the initiative kicked off in early 2016, EEI began by evaluating the existing ESG/sustainability reporting practices of its member companies. Most members already were issuing an ESG or sustainability report on an annual or biannual basis, but the type of reporting/metrics included in these reports was not consistent across the electric power industry, and these reports typically were designed for electricity customers and other stakeholders, but not for investors.

As a first step in the development of a voluntary reporting template, EEI conducted a call with a group of institutional investors in the summer of 2016 to focus on the most relevant ESG information for investors. The topics that were discussed on that call were the basis for a survey that EEI developed and distributed to a broader group of institutional investors to solidify which ESG topics were of most relevance to the investment community. The first draft of the EEI ESG/sustainability template was developed in fall 2016 based on the results of that survey.

These initial steps were extremely important in identifying key ESG metrics, and it is also when the notion of having a qualitative section to provide context for the data in a quantitative section was established. With this baseline set of information and ideas, EEI hosted the first meeting of the ESG/Sustainability Member Committee to review and refine the draft template in October 2016. EEI then led a series of working group meetings in 2017 and 2018, involving major investors and member companies to continue developing and refining the EEI ESG/sustainability template.

One of the key findings in the early stages of the development of the template was that brevity must be a cornerstone. Investors urged electric companies to be concise in their ESG reporting and to focus on the most relevant topics and metrics in ESG disclosures. Another important consideration for investors is consistency so that ESG disclosures could have a measure of comparability across companies. Regarding quantitative information, the EEI ESG/sustainability template was developed using definitions that generally are accepted in the industry already and align with the reporting of publicly available data to the extent possible.

The draft template was enhanced during the summer of 2017, when some EEI member companies conducted an internal pilot exercise that allowed investors participating in the working group to review different versions of the populated draft template. Following this internal pilot, EEI continued to work with its member companies and investors to finalize the draft template for a public pilot release, which officially was launched in December 2017 (see [2017 EEI Press Release](#)). More than 20 EEI member companies participated in the public pilot exercise by posting populated EEI ESG/sustainability templates on their company webpages. For context, this pilot group represented about two-thirds of the investor-owned electric power industry by market capitalization.

In early 2018, the working group met to review the results of the public pilot exercise and discuss modifications to further refine the template. EEI officially launched Version 1 of the EEI ESG/sustainability template in August 2018 (see [2018 EEI Press Release](#)). The EEI member companies participating in Version 1 of the EEI ESG/sustainability template have published their 2017 data on the investor relations or sustainability sections of their websites. For those interested in the information, refer to the [EEI ESG/Sustainability webpage](#) for hyperlinks to member company websites and template locations.

The EEI ESG/sustainability template is envisioned to be an iterative product that can evolve over time. As was the case during the development of the pilot and Version 1 template, EEI will continue to work on balancing its members' need for flexibility with investors' desire for comparability. The working group is currently working on updates for Version 2 of the EEI ESG/sustainability template, which is scheduled for release in 2019 for companies to report 2018 data. One key update will be the addition of ESG metrics related to natural gas, so the template can be used by natural gas distribution companies, generally referred to as local distribution companies (LDCs). EEI is working with AGA on the incorporation of these additional metrics. Moreover, EEI and AGA currently are working with the upstream and midstream natural gas industries on the next area of focus of the industry's sustainability efforts. The goal of this new initiative is to foster sustainability practices and reporting across the entire natural gas supply chain, addressing methane emissions and water impacts and enhancing safety practices, among other issues.

