July 15, 2013

Subject: Comments on the Consultation Draft of the International <IR> Framework

Dear IIRC Managers:

The Electric Power Research Institute (EPRI) would like to thank you for the opportunity to comment on the Consultation Draft of the International <IR> Framework, an effort by the IIRC to evolve corporate reporting to incorporate the many aspects of value creation for the short, medium, and long term. In its response, EPRI considered suggestions from its internal staff as well as members of the EPRI Energy Sustainability Interest Group, which includes 41 member companies, represents $915 billion in assets, two million miles of transmission and distribution lines, and over 463 gigawatts of generation capacity primarily based in the United States of America. Specifically, a subset of 12 companies in this group have reviewed the Consultation Draft and provided EPRI input regarding our comments; to be clear, all comments contained in this letter reflect EPRI opinion and expertise. EPRI appreciates this opportunity and respectfully submits the following comments for your consideration.

At the highest level, we agree with the principles of the Consultation Draft in that reporting should have a strategic focus with an eye towards the future; that there is inter-relatedness of material issues that impact company and stakeholder values; that the engagement of stakeholders can be critical to success; that materiality is critical to disclosure; and that the information disclosed should be reliable, complete, consistent and comparable. However, there are certain areas within the Consultation Draft with which we have concerns, including: 1. Materiality and Audience, 2. Time-scale Definitions, 3. Boundaries, 4. Disclosure of Risks, and 5. Structure and Timing.

1. Materiality and Audience: We appreciate the IIRC's effort through the Consultation Draft to encourage reporters to identify and disclose information pertaining to material issues. The electric utility industry recognizes the importance of materiality when reporting on sustainability issues, as demonstrated through our work on a materiality assessment in 2012, the results of which are presented in the EPRI Report *Material Issues for the North American Electric Power Industry: Results of Research with Electric Power Companies and Stakeholders in the United States and Canada (Report 3002000920).* The IIRC definition of materiality (which is not provided until 3.23) is quite broad, stating that "a matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the assessments of the primary intended report users with regard to an organization's ability to create value over the short, medium and long term." This definition does not align with the intended audience of an integrated report: "the providers of financial capital in order to support their financial capital allocation process." If it is truly the intention to limit the audience as stated, then the definition of materiality should - from a U.S. standpoint - fall in line with the federal securities laws that address materiality, and not be defined only by "senior management and those charged with governance."

Further, IIRC should consider that the audience, and therefore the perspectives on materiality be broadened beyond the financial community. All stakeholders – environmental groups, customers, governments, regulatory agencies, and financial investors – benefit from understanding the linkages between financial and nonfinancial performance. And all of these groups have an important role in defining materiality. By broadening the audience and considering various perspectives in defining materiality, a more holistic view is created that can better inform long-term business operations.

Lastly, in the current reporting environment, U.S. investors have not shown a significant interest in sustainability-related information, making integrated reporting for many electric utilities unappealing. For these reasons, we propose that the audience be reconsidered and the definition of materiality be informed by a broader audience. IIRC may consider the following definition, which is only slightly modified from the one the EPRI Energy Sustainability Interest Group used when performing its 2012 materiality survey: "A material sustainability issue is an environmental, social, and/or economic issue that has the potential to impact the short, medium, or long-term viability of the business or its stakeholders (customers, suppliers, investors, labor unions, academics, environmental advocacy groups, social advocacy groups, governments, and regulatory agencies and commissions)." Further comments on materiality can be found in our response attached to questions 11 and 12.

2. Time-scales Definitions: We see a conflict in the definitions provided in the Consultation draft, specifically related to "value," "capitals" and the reference to timescales (short-, medium- and long-term). We agree with IIRC's direct inclusion of "natural capital" in the value creation process. This is obviously critical to reporting and sustainability, along with the other capitals included. However, from the perspective of the Natural Capital (i.e., functioning ecosystems), short-term is 20 years and long-term is 200 years. For an investor, short-term may be 5 years and long-term 20 years. Therefore, when you reference "value creation" throughout the draft, you have a clear conflict in defining short-, medium-, and long-term. Our suggestion to broaden your primary audience beyond financial investors for this report would largely solve this issue, as the various stakeholder groups included in the larger audience will adopt the appropriate perspectives to protect and balance the various Capitals.

3. Boundaries: We are concerned about the requirement for certain responses to identify impacts throughout the "value chain" as referenced in the Consultation Draft (2.36, 4.23, 4.28). In order to be in accordance with the IIRC approach, companies would have to complete a full value chain mapping AND conduct a materiality assessment. However, the two approaches are quite different. Identification and prioritization of material issues is somewhat qualitative, based on perspectives of the informing audience, and can be influenced by recent global and local events. In contrast, a value chain is an assessment of on-the-ground impacts (both downstream and upstream) and will primarily change when operational practices change. One assessment is value-based, while the other is operational-based. Further, to stay current, organizations may need to reassess the full value chain as operational changes occur, or execute a new materiality assessment as social values and recognition evolve, which may be difficult on an annual basis due to resource constraints.

We recommend that the IIRC reconsider how to most effectively assess boundaries—as an assessment of current opinions that reflects priorities, motivations, and values (materiality approach) or as an assessment of operational impacts and influences (value chain approach). Both approaches are valid, but IIRC is asking for two disparate, resource-intensive efforts. Given the limited resources available for voluntary sustainability reporting, let alone integrated reporting, completing both a materiality and a value chain assessment in order to respond to the requests of the IIRC will preclude participation by many electric utilities. We support the focus on materiality as the most important first step, but also suggest that IIRC consider allowing reporters to choose which approach they will use for defining reporting boundaries.

4. Disclosure of Risks: The disclosure of risks is an area of concern in the IIRC Consultation Draft. Section 4.15 requests that Companies identify their risks including:

- "The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two. External sources include those stemming from the external environment, as discussed in paragraphs 4.8-4.9. Internal sources include those stemming from the organization's business activities, as discussed in paragraphs 2.30-2.33.
- The organization's assessment of the likelihood that the opportunity or risk will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the opportunity or risk to come to fruition. Such disclosure will invariably involve a degree of uncertainty. Guidance on likelihood and magnitude of effect is included in Section 5B, and guidance on disclosures with respect to uncertainty is included in Section 5C.
- The specific steps being taken to create value from key opportunities and to mitigate or manage key risks, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs."

To most effectively report on material issues, it is important to understand risks, as they are connected. A discussion of risk also provides valuable insight into how a company is managing its material issues. However, the extent of disclosure being requested could have the opposite effect of what the IIRC desires by overburdening reporters. This level of depth does not support the guiding principle of being concise as set forth in 3.29. Without question, we recognize that risk impacts value creation and that the disclosure of risk mitigation activities is important. We would suggest that the IIRC instead ask companies about their risk process – how risks are identified, assessed, and managed. Companies can then include examples as they see fit or link to their 10k statements on risk.

5. Structure and Timing: Sections 1.18, 3.19, 4.4, and 5.2 state that while the IR framework should be applied to all communications, a company should also prepare an additional, separate, integrated report in line with the statutory financial reporting cycle. The requirement for a separate report, if other existing reports are developed in adherence with the integrated reporting framework, may not be necessary. To produce another report in the same cycle as the 10K is extremely resource intensive. This is particularly true if you anticipate integrated reporting appealing to more than the financial community. While the suggestion to apply this process to all communications such as investor relations web sites and analyst calls is useful, most electric utilities are currently not doing so. Requiring IR for all communications should not be mandatory to be able to claim a report was developed in accordance with the framework.

Further, in support of the guiding principle of comparability, reports which do not adhere to some kind of recommended or more-defined structure would not be easy to follow or compare. There is a level of freedom desired to be able to develop a report and tell the "sustainability story" as determined by each individual company. We suggest that the IIRC provide an example report that it considers meeting the intent of IR and following the requirements of the guidelines. If this is not possible, the IIRC may consider including a checklist to ensure that the standard of disclosure expected is met by reporting companies.

Finally, it is our perception that overall, there remains limited interest from the investment community in the United States in sustainability information, although interest seems to be growing. Integrated reporting is a resource intensive effort, for which drivers are not consistent or broad. It is important for IIRC to establish guidelines that will act to remove barriers to reporting, and not unduly burden companies that are motivated to tackle an integrated report. We recognize the significant undertaking of crafting a set of reporting guidelines that apply to so many industries on an international scale and thank you for allowing us to help shape the future of integrated reporting.

As we mentioned previously, certain members of the EPRI Sustainability Interest Group provided input into this response, although the entirety of this letter reflects EPRI's opinions and not necessarily those of any EPRI Sustainability Group Member or the entirety of the membership. With that understanding, EPRI would like to acknowledge some of those members which have agreed to be identified:

Ameren
American Electric Power
Arizona Public Service
Consolidated Edison of New York
Duke Energy
Entergy
San Diego Gas and Electric
Tennessee Valley Authority
Tucson Electric Power Co.
Pacific Gas and Electric
Portland General Electric
Xcel Energy

Sincerely,

Jessica Fox

Jessica Fox

Program Manager, EPRI Energy Sustainability Interest Group

Attachment: EPRI response to On-Line Questionnaire for the IIRC Consultation Draft Framework

ELECTRIC POWER RESEARCH INSTITUTE

Attachment: Response to On-line Questionnaire

Should any additional principles-based requirements be added or should any be eliminated or changed?

No comment.

Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

Sections 1.18, 3.19, 4.4, and 5.2 identify that while the IR framework should be applied to all communications, a company should also prepare an additional, separate, integrated report in line with the statutory financial reporting cycle. If other reports are developed in adherence with the integrated reporting framework, another separate report is duplicative. To produce another report– whether integrated or sustainability – in the same cycle as the 10K is extremely resource intensive. This is particularly true if you see integrated reporting as appealing to more than the financial community. If you broaden the audience for the integrated report, the need for multiple individual reports may be alleviated.

If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?

No comment.

Please provide any additional comments you have about Chapter 1.

No comment.

Do you agree with this approach to the capitals? Why or why not?

We agree with the approach of focusing on materiality, and believe the defined capitals are inclusive and appropriately comprehensive. It is a clean way of looking at overall performance without being weighed down by an infinite number of indicators. The framework recommends not reporting on all capitals if they are not material, which we agree with. This aligns with the message to stick with what's material.

Please provide any other comments you have about Section 2B.

From Cover Letter:

We see a conflict in the definitions provided in the Consultation draft, specifically related to "value," "capitals" and the reference to timescales (short-, medium- and long-term). We agree with IIRC for the direct inclusion of "natural capital" in the value creation process. This is obviously critical to reporting and sustainability, along with the other capitals included. However, from the perspective of the Natural Capital (i.e., functioning ecosystems), short-term is 20 years and long-term is 200 years. For an investor, short-term may be 5 years and long-term 20 years. Therefore, when you reference "value creation" throughout the draft, you have a clear conflict in defining short-, medium-, and long-term. Our suggestion to broaden your primary audience beyond financial investors for this report would largely solve this issue, as the various stakeholder groups included in the larger audience will adopt the appropriate perspectives to protect and balance the various Capitals.

Business Model - Do you agree with this definition? Why or why not?

No comment.

Outcomes - Do you agree with this definition? Why or why not?

Given the forward-looking stance of this Framework, it should be noted that forecasting outcomes will be difficult and that companies may not have the resources to do this for certain issues, or that doing so may require too much speculation to reasonably report. The outcomes are dependent on several different inputs, and many of them cannot be predicted with the accuracy one would expect in a report that contains financial information that is often required to be accurate by law. Further, companies are at varying stages of their sustainability reporting and many do not have the resources to make disclosure on future looking outcomes. The expectations regarding disclosure related to outcomes should be tempered in order to attract as many organizations as possible to publishing an integrated report.

Please provide any other comments you have about Section 2c or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework.

No comment.

Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

No comment.

Do you agree with this approach to materiality? If not, how would you change it?

From cover letter:

We appreciate the IIRC's effort through the Consultation Draft to encourage reporters to identify and disclose information pertaining to material issues. The electric utility industry recognizes the importance of materiality when reporting on sustainability issues, as demonstrated through our work on a materiality assessment in 2012, the results of which are presented in the EPRI Report *Material Issues for the North American Electric Power Industry: Results of Research with Electric Power Companies and*

Stakeholders in the United States and Canada (Report 3002000920). The IIRC definition of materiality (which is not provided until 3.23) is quite broad, however, stating that "a matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the assessments of the primary intended report users with regard to an organization's ability to create value over the short, medium and long term." This definition does not align with the intended audience of an integrated report: "the providers of financial capital in order to support their financial capital allocation process." If it is truly the intention to limit the audience as stated, then the definition of materiality should - from a U.S. standpoint - fall in line with the federal securities laws that address materiality, and not be defined only "senior management and those charged with governance".

However, IIRC should consider that the audience and therefore, the perspectives on materiality, be broadened beyond the financial community. All stakeholders – environmental groups, customers, governments, regulatory agencies, financial investors - benefit from understanding the linkages between financial and nonfinancial performance. And all of these groups have an important role in defining materiality. By broadening the audience and considering various perspectives in defining materiality, a more holistic view results that can better inform long-term business operations. In addition, in the current reporting environment, U.S. investors have not shown significant interest in this information, making integrated reporting for many electric utilities unappealing. For these reasons, we propose that the audience be reconsidered and, depending on the outcome, the definition of materiality be informed by that interested audience. If the audience includes broader stakeholders, IIRC may consider the following definition, which is only slightly modified from the one the EPRI Energy Sustainability Interest Group used when performing its 2012 materiality survey: A material sustainability issue is an environmental, social, and/or economic issue that has the potential to impact the short, medium, or long-term viability of the business or its stakeholders (customers, suppliers, investors, labor unions, academics, environmental advocacy groups, social advocacy groups, governments, and regulatory agencies and commissions).

Additional Comments:

We also note that companies are asked to disclose the "full range of factors" (1.5) based on both their "nature and magnitude" (3.23, 4.5, and Glossary 8). This is an exceptionally broad definition of materiality and we would suggest consideration of the EPRI definition, as noted above. This definition embodies the three pillars of sustainability, the importance of stakeholders, and focuses on those issues that the IIRC has identified as core to the Framework's purpose.

Sections 3.23 and 3.24 state that "A matter is material if, in the view of senior management and those charged with governance . . ." it could impact one of the capitals over the short-, medium- and long-term. As noted above, this view of materiality is quite limited and raises conflicts about the timescale of value (natural capital versus profits), who the value is created for (investors only, or all stakeholders), and raises concerns that value/materiality is defined by a small set of perspectives.

Please provide any other comments you have about Section 3D or the Materiality determination process (5B).

The framework states in 3.27 that “materiality assessments need to be performed at least annually.” Further clarification is needed regarding what is included in a materiality assessment. If a company is engaged in meaningful stakeholder dialogue and the outcomes of those discussions are integrated into strategic planning and decision-making, an annual materiality assessment may not be needed. Stakeholder engagement is both a form of assessing what is material and assurance that all the right issues are being addressed. In addition, if a Board is engaged in this process they will also be able to guide the assessment of materiality. Finally, the sustainability issues identified in a materiality assessment are likely to be long-term issues which will impact, and need to be managed by companies over a significant timeframe. While organizations will need to reassess their material issues as social values and recognition evolve, IIRC needs to clarify how long the opinions expressed in each materiality matrix are valid, as this effort cannot be done on an annual basis by many companies due to resource constraints. We would propose that a review every three years would be sufficient, unless there are significant economic or operational changes that require a reassessment.

How should the reliability of an integrated report be demonstrated?

It is not clear how to confirm whether a report is prepared according to the framework. Is there intended to be an “in accordance with” statement? If so, this should be clarified; a concise check-list of criteria could help to provide such clarity.

While the suggestion to apply this process to all communications such as investor relations web sites and analyst calls is useful, as stated previously, many companies do not do so without reporting mandates. Requiring IR for all communications shouldn’t be mandatory to be able to claim a report was developed in accordance with the framework. In order to assure reliability, IIRC may want to consider providing the option for reports to be registered with the IIRC and have some sort of review process to assure that those registered with IIRC are in fact “in accordance” with the framework.

<u>This, however, is not to be mistaken as a requirement for third-party verification of the report.</u> While certain aspects of the report can be assured, such as greenhouse gas emissions, the requirement to allocate resources to assuring these reports − which are publicly available and subject to scrutiny, and therefore prepared with care − may make companies decide not to participate in the integrated reporting framework altogether. In addition, without a mandate to do so, many may choose not to conduct third party assurance based on the cost verses value.

Please provide any other comments you have about Section 3E.

No comment.

Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

We agree with the concept of comparability, such as using industry data to benchmark where possible, for example. However, it should be noted that electric power companies have a wide variety of business models, with some being almost wholly generators of electricity and others only providing distribution of electricity. Thus, it is important to give considerable thought to the appropriateness of comparing data (greenhouse gas emissions, water use, etc). When data is compared, it should only be done for metrics that are equalized to account for the variety of business models in the industry. We also like the idea of presenting some information in the form of ratios rather than raw numbers, although we would note that doesn't work for everything (such as electricity reliability metrics).

Please provide any comments you have about Chapter 4 that are not already addressed by your response above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

From cover letter:

The disclosure of risks is an area of concern in the IIRC Consultation Draft, Section 4.15 requests that Companies identify their risks including:

- "The specific source of opportunities and risks, which may be internal, external or, commonly, a mix of the two. External sources include those stemming from the external environment, as discussed in paragraphs 4.8-4.9. Internal sources include those stemming from the organization's business activities, as discussed in paragraphs 2.30-2.33.
- The organization's assessment of the likelihood that the opportunity or risk will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the opportunity or risk to come to fruition. Such disclosure will invariably involve a degree of uncertainty. Guidance on likelihood and magnitude of effect is included in Section 5B, and guidance on disclosures with respect to uncertainty is included in Section 5C.
- The specific steps being taken to create value from key opportunities and to mitigate or manage key risks, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs."

To most effectively report on material issues, it is important to understand risks, as they are connected. A discussion of risk also provides valuable insight into how a company is managing its material issues. However, the extent of disclosure being requested could have the opposite effect of what the IIRC desires by overburdening reporters. This level of depth does not support the guiding principle of being concise as set forth in 3.29. Without question, we recognize that risk impacts value creation and that the disclosure of risk mitigation activities is important. We would suggest that the IIRC instead ask companies about their risk process – how risks are identified, assessed, and managed. Companies can then include examples as they see fit or link to their 10k statements on risk.

Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

We have concerns with the required inclusion of a governance body statement as the method for acknowledging responsibility for the integrated report. A lack of flexibility in this requirement could potentially discourage companies from using the IIRC framework altogether.

Please provide any other comments you have about involvement of those charged with governance (Section 5D).

No comment.

If assurance is to be obtained, should it cover the integrated report as a whole or specific aspects of the report? Why?

While certain aspects of the report can be assured, such as greenhouse gas emissions, the requirement to allocate resources for assuring these reports − which are publicly available and subject to scrutiny, and therefore prepared with care and attention to accuracy − may make companies decide not to participate in the integrated reporting framework altogether.

Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

No comment.

Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

No comment.

Recognizing that IR will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for user organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?

We agree with the focus on future orientation and that to be able to talk about value creation, a company must have a sense of what the future holds, its strategy for managing risks and opportunities, and how it will achieve its goals. This is something both investors/lenders and other stakeholders have expressed an interest in, with a focus on historical performance becoming less important. While we support this outlook, we note that presenting some targets, forecasts and projections for two or more future periods may be difficult depending on the issue.

If the IIRC were to develop explanatory material on IR in addition to the Framework, which three topics would you recommend be given priority? Why?

No comment.

Please provide any other comments not already addressed by your responses to Questions 1-23.

Please reference cover letter.