STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on October 15, 2020

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Diane X. Burman, concurring
James S. Alesi
Tracey A. Edwards
John B. Howard

CASE 20-M-0499 - In the Matter Regarding the Need for Reporting Risks Related to Climate Change

ORDER INSTITUTING PROCEEDING

(Issued and Effective October 15, 2020)

BY THE COMMISSION:

INTRODUCTION

The threat of climate change and its potential impacts on all aspects of the economy are broadly recognized. The Financial Stability Board (FSB) is an international organization that monitors and makes recommendations about the global financial system. In 2017, the FSB’s Task Force on Climate-related Financial Disclosures (TCFD) released its recommendations for a uniform set of corporate climate-related financial disclosures. These disclosures are intended to promote more informed investment decisions that will, in turn, enable investors to better understand the financial system’s exposure to climate-related risks. For public utilities, with significant assets and changing physical infrastructure needs, increased transparency of climate-related financial risks would allow better planning and investment consistent with the State’s climate goal of a carbon neutral economy by 2050.

The Commission views the issues raised by the FSB Task Force, and the potential impact on public utilities, central to the continued provision of safe and adequate service across the state while protecting the natural environment. With this Order, a proceeding is commenced to consider adoption of the TCFD's recommendations, or an alternative approach, for climate-related financial disclosure at the utility operating company level.

BACKGROUND

There are multiple frameworks for climate-related risk disclosure, all of which are intended to provide investors and other stakeholders with necessary information regarding companies' vulnerabilities to the effects of climate change. The intent of each of the disclosure frameworks is essentially the same; to help investors and other stakeholders understand how climate-related issues may affect a company's business strategy and financial planning. From a global perspective, wide-spread adoption of such disclosures will promote more informed investment decisions that will, in turn, enable investors to better understand the financial system's exposure to climate-related risks.

In addition, to the FSB's TCFD framework, these frameworks include the Climate Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). The Corporate Reporting Dialogue started the Better Alignment Project in 2018 to drive better alignment in the corporate reporting landscape focused on aligning these frameworks with

the disclosures recommended by the TCFD.[1] In a similar vein, a collaboration between two utility trade groups, the American Gas Association (AGA) and the Edison Electric Institute (EEI) has developed a joint AGA/EEI ESG and Sustainability template.[2]

The Commission notes that, currently, several of the parent holding companies of New York's eleven major electric and gas utilities are signatories to the TCFD and have committed to fully adopting its recommendations in their disclosures to their shareholders. The remaining holding companies have either not yet signed on or are more inclined to align with one of the other aforementioned approaches. In any event, the current reporting focuses solely on data aggregated at the holding-company level and is not utility specific. The table below shows the current status of climate-related risk disclosures for the eleven major electric and gas utilities in New York:

[1] Corporate Reporting Dialogue. Better Alignment Project. Available here: https://corporatereportingdialogue.com/better-alignment-project/#alignment

[2] https://www.aga.org/policy/natural-gas-esgsustainability.

NY Operating Company	Parent Holding Company	Disclosure Type
Niagara Mohawk Power Corporation d/b/a National Grid	National Grid PLC	TCFD @ Parent Holding Company Level
The Brooklyn Union Gas Company d/b/a National Grid NY		
KeySpan Gas East Corporation d/b/a National Grid		
New York State Electric & Gas Corporation	Iberdrola S.A.	TCFD @ Parent Holding Company Level
Rochester Gas and Electric Corporation		
Consolidated Edison Company of New York, Inc.	Consolidated Edison, Inc.	TCFD, EEI AGA, and SASB @ Parent Holding Company Level
Orange & Rockland Utilities, Inc.		
National Fuel Gas Distribution Company	National Fuel Gas Company	SASB and GRI[3] @ Parent Holding Company Level, EEI AGA @ operating company level
Central Hudson Gas & Electric Corporation	Fortis Inc.	Annual Sustainability Reports (a fair amount of which comports with both GRI and TCFD) @ Parent Holding Company Level
Corning Natural Gas Corporation	Corning Natural Gas Holding Corp.	No specific climate reporting
St. Lawrence Gas Company, Inc.	Algonquin Power & Utilities Corp.	TCFD @ Parent Holding Company Level

In September 2020, the Commodity Futures Trading Commission issued a report[4] which provides a thorough discussion of the alternative frameworks of financial disclosure, including the TCFD, and reaches several conclusions, each of which is an important consideration underlying this Order.

The report concludes that climate risk disclosure offers a variety of potential benefits to issuers, investors, and society in the United States. It states that by building on the firm-level disclosures provided by issuers, U.S. financial

[3] Global Reporting Initiative (GRI)

[4] Climate-Related Market Risk Subcommittee (2020). Managing Climate Risk in the U.S. Financial System. Washington, D.C.: U.S. Commodity Futures Trading Commission, Market Risk Advisory Committee.

regulators would be better able to understand the impacts of climate change on financial markets. This greater understanding would allow them to issue relevant guidance or regulation needed to improve the resilience of financial markets in the face of this risk and uncertainty. By the same token, state and local governments—and community members themselves—would be better able to understand how companies in their localities are preparing for climate risks and opportunities that could impact the local economy, labor force, and tax base.[5]

The report further finds that "widespread use of these frameworks underscores that collecting, assessing, and disclosing climate risk information is a practical process, in which most large companies are already engaged."[6] "For all industries in which climate risk is material, the lack of comprehensive and comparable disclosure not only poses a challenge to investors seeking to assess, manage, and mitigate climate risk, but it also impedes the ability of disclosing organizations to inform their strategic responses to climate risk by benchmarking their performance against peer organizations."[7] The report further concludes that the level of climate disclosure and the pace of growth of climate risk disclosure is inadequate. Thus, to be responsive to market demand, U.S. regulators should issue rules for enhanced climate risk disclosures and monitor those rules for effectiveness. In summary, the report concludes that "a mandatory, standardized disclosure framework for material climate risks, including guidance about what should be disclosed, that is closely aligned

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[5] Ibid, p.88.

[6] Ibid, p.89.

[7] Ibid, p.91.

with developing international consensus, would improve the usefulness and cost-effectiveness of disclosures."[8]

Given the pre-dominance of the TCFD as a reporting framework adopted by New York's investor-owned utilities or by their parent holding companies, it is worth discussing the TCFD approach at greater length, recognizing the general alignment of these frameworks in their intent, approach, and recommendations. Established in 2015, the Task Force on Climate-Related Financial Disclosures ("TCFD") has developed a set of voluntary climate-related risk disclosures.[9] The TCFD recommends that companies and other reporting organizations include its recommended disclosures in mainstream financial reports. The TCFD's recommended disclosures fall into four distinct areas: governance, strategy, risk management and metrics and targets. The two governance related disclosures recommended by the TCFD are: 1) describing the board's oversight of climate-related risks and opportunities and 2) describing management's role in assessing and managing these risks and opportunities.

The purpose of the strategy financial disclosures is to disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, and strategy and financial planning where such information is material. The three strategy-related recommended disclosures are: 1) describing the climate-related risks and opportunities the organization has identified over the short, medium and long-term; 2) describing the impact of these risks and opportunities on the organization's business, strategy and financial planning; and 3) describing the resilience of the organization's strategy taking into consideration different climate-related scenarios,

[8] Ibid, p.98.

[9] https://www.fsb-tcfd.org.

including a scenario constraining average temperature changes to 2 degrees Celsius or lower.

The purpose of the risk management financial disclosures is to disclose how the organization identifies, assesses and manages climate-related risks. The TCFD's three recommended disclosures involving risk management are: 1) describing the organization's processes for identifying and assessing climate-related risks; 2) describing the organization's processes for managing climate-related risks; and 3) describing how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Finally, the purpose of the fourth area of disclosure recommended by the TCFD relate to metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. The three recommended disclosures pertaining to metrics and targets are: 1) disclosing the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process; 2) disclosing direct and indirect greenhouse gas emissions along with the related risks; and 3) describing the organization's targets to manage these climate-related risks and opportunities as well as the organization's performance against these targets.

DISCUSSION AND CONCLUSION

Utilities are very capital intensive and rely on debt and equity investors to provide necessary capital to ensure the provision of safe and adequate service in New York. In total, New York's largest electric and gas utilities have more than $52 billion in capital. In the past year, New York's utilities have raised $6.2 billion in capital through debt issuances. Most of

these issuances occur at the operating company. New York utilities also obtain equity capital through their parent holding companies. Consolidated Edison, Inc. raised about $880 million in equity in 2019.[10]

Given the potential impacts of climate change on the provision of utility services, it is necessary for utilities to earnestly incorporate these impacts into all of their future decision-making, and to robustly and consistently report those impacts to potential investors, so that the market can operate efficiently with maximum information. At this time, the Commission believes any climate-related risk disclosure reporting requirements should be limited to the major electric and gas utilities.[11] While disclosures at the holding company parent level serve to inform equity investors, these disclosures do not focus on climate-related risks relevant to the New York operating companies. Thus, given the issuance of debt at the operating company level, and to focus management and investor attention on climate-related risks in the state, the Commission believes that climate-related risk disclosures should be issued specific to the operating companies in New York. Such climate-related risk disclosures should be included annually with the utilities' financial reports.

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[10] Consolidated Edison, Inc. 2019 Annual Report (Form 10k), Consolidated Statement Of Cash Flows, p. 93.

[11] Generators in New York are largely subject to a lightened regulatory regime which reflects the competitive forces they are subject to. As such, these entities are expected to be responsive to market forces and investor demands for climate disclosures. At this time, these entities are not specifically included in this proceeding. However, should it be determined at a later date that additional climate disclosure is demanded for these entities, which is not being met by market actions, future Commission action may be necessary.

While there is a need to factor climate change into a utility's financial planning, it is not apparent which reporting structure is the best option. For that reason, the Commission solicits comments from interested parties on the following questions:

1) What are the pros/cons and costs/benefits of providing climate-related risk disclosure?
2) Should utility operating companies in New York be required to make climate risk disclosure in annual financial statements, sustainability reports, or other public filings?
3) Should utility operating companies in New York be required to use the same approach to climate risk disclosure?
4) Which framework for such climate risk disclosure should utility operating companies in New York be required to adopt, whether TCFD's recommended disclosures or other, and why?? If so, how should utility operating companies implement those recommended disclosures?

When the comments are received, the Commission will determine the proper course of action for the state's utilities.

<u>The Commission orders</u>:

1. A proceeding is established to address all matters related to the financial reporting of climate issues.

2. Comments regarding the questions listed in the body of this Order may be filed within 30 days of issuance of this Order.

3. In the Secretary's sole discretion, the deadlines set forth in this order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one day prior to the affected deadline.

4. This proceeding is continued.

By the Commission,

(SIGNED) MICHELLE L. PHILLIPS
Secretary