Electricity Canada Électricité Canada

June 7th, 2024

Submitted electronically through the FRAS Canada website (frascanada.ca).

Re: CSSB First Canadian Sustainability and Climate Disclosure Standards

We are pleased to participate in this opportunity to respond to the Canadian Sustainability Standards Board (CSSB) in its request for comments regarding its first proposed Canadian Sustainability Disclosure Standards (CSDS) Exposure Drafts.

Electricity Canada is the national forum and authoritative voice of electricity in Canada. Electricity Canada members represent approximately 90 percent of all generation, transmission, distribution, and marketing of electricity in Canada, as well as leading manufacturers and suppliers to the industry. Our industry has made significant strides in contributing to emissions reduction and climate adaptation. According to the Electricity Canada Sustainability 2021 Report, in 2020 an impressive 85% of the net energy generated stemmed from non-fossil fuel sources, marking a substantial shift towards low-carbon energy. The implementation of external conservation programs has also yielded remarkable results, with a 90% increase in energy savings between 2019 and 2020. Furthermore, Electricity Canada members have consistently decreased priority emissions, achieving their lowest levels in 2020. During this time, investment in infrastructure has remained robust, with expenditures totaling $13.73 billion in 2020, underlining our commitment to modernizing and cleaning our energy systems. These achievements underscore our industry's proactive approach towards sustainability and its crucial role in mitigating climate change effects.

Electricity Canada is supportive of the CSSB's work to advance the adoption of sustainability disclosure standards in Canada that align with the global baseline standards developed by the International Sustainability Standards Board (ISSB) with modifications that serve the Canadian public interest.

While we acknowledge that the CSDS 1 and CSDS 2 will be adopted on a voluntary basis, we understand that the Canadian Securities Administrators (CSA) will consider the final CSSB standards when developing their mandatory reporting requirements for Canadian issuers. We understand the value of alignment with global standards to allow Canadian issuers to effectively compete in domestic and global capital markets. However, we note that alignment within the highly interconnected North American market is also a critical consideration for Canadian companies.

The United States Securities and Exchange Commission (SEC) has recently finalized reporting rules on climate-related risks and greenhouse gas (GHG) emissions. General alignment with the ISSB sustainability standards, supplemented with consideration of certain aspects of the SEC rule, is a key consideration for the Canadian context. For this reason, Electricity Canada believes the CSSB should consider modifications to CSDS 2 to align with the SEC's climate-related disclosure rule, where appropriate. Such changes would reflect the unique perspective of Canadian reporting issuers, including the interconnected and competitive environment in which they

613.230.9263

info@electricity.ca

electricity.ca | electricite.ca

1500-275 Slater Street

1500-275, rue Slater

Ottawa, Ontario K1P 5H9

operate, and would reflect the CSSB's mandate to align with baseline standards developed by the ISSB, but with modifications to serve the Canadian public interest.

With this context in mind, below we offer comment on four key areas of concern for our members: Scope 3 emissions reporting, scenario analysis reporting, transition relief relating to non-climate sustainability reporting, and transition relief around the timing of reporting. We close with a request for clarification around Sustainability Accounting Standards Board (SASB) metrics used for identifying climate-related risks and opportunities.

Scope 3 Emissions

While many Electricity Canada member companies already disclose their scope 1 and 2 emissions, scope 3 emissions are particularly challenging to properly assess and this requires more time to develop and implement. Currently, different organizations can be using a variety of methodologies for estimating scope 3 emissions and defining their value chain. There is a lack of confidence in the availability, quality, and reliability of data received from suppliers and vendors. Without additional work to determine how these emissions can be effectively reported, much of the scope 3 disclosures would be based on estimation and assumptions, which would ultimately not provide meaningful comparisons between organizations and would not be useful to investors.

Recognizing the inherent challenges in reporting scope 3 emissions, the SEC has excluded the mandatory reporting of scope 3 GHG emissions in its final rule. Given the capital-intensive nature of our member companies in the electricity sector and Canada's significant interconnection with the US market, the requirement for mandatory scope 3 emissions reporting in the Canadian context would present difficulties for Canadian issuers in relation to capital market competitiveness and access to capital.

A requirement to provide more information than our US counterparts could put Canadian companies at a significant competitive disadvantage as Canadian companies disclosing scope 3 emissions will face a higher regulatory and compliance burden relative to their US peers. This includes added administrative and cost burdens, requiring Canadian companies to divert scarce resources to reporting. Canadian reporting companies may face an additional competitive disadvantage as they could be perceived as having significantly higher GHG emissions than US counterparts if they are required to disclose an additional scope of emissions. This could lead to a negative perception in the marketplace and possibly added scrutiny from investors and analysts.

Considering the Canadian context outlined above, Electricity Canada disagrees with the proposal in the CSDS 2 and believes that Scope 3 emissions disclosure should not be required at this time.

Scenario Analysis

Electricity Canada members similarly believe that the proposed standards should not require the disclosure of scenario analysis at this time. In addition to concerns around the need for considerable resources, which are generally not available in small or mid size enterprises, there is a lack of standardized guidance around conducting scenario analysis for our industry, including well-defined time horizons, such that the scenario analysis and quality of reports delivered would vary and would not be comparable between different companies, therefore reducing the value significantly. The results of quantitative scenario analysis are not financial forecast or forward-looking

guidance, and inherently contain a significant degree of uncertainty and variability. The flexibility included in the CSDS 2 acknowledges the resourcing challenges, yet does not alleviate concerns around lack of comparability.

We note that the SEC does not require any registrant to conduct scenario analysis in their finalized rule. Scenario analysis disclosure is only required if the registrant already uses scenario analysis for assessing the impact of climate-related risks and if the identified risks are reasonably likely to have a material impact on the business. As described in the previous section, Canadian standards should recognize the interconnected nature of the North American market and consider the competitiveness of Canadian businesses within it.

Non-Climate Sustainability Reporting (CSDS 1)

We recommend additional transition relief for the general sustainability reporting standards (CSDS 1), ideally until further topic-specific standards (similar to CSDS 2) have been developed around other sustainability-related information (e.g., diversity).

The CSA anticipates adopting only those provisions of the sustainability standards that are necessary to support climate-related disclosures at this time.[1] This is in alignment with the US SEC rule, which does not currently require the reporting of non-climate sustainability information. As previously stated, we believe it is important for the Canadian standards to remain consistent with the SEC rule where possible.

While we are supportive of the direction of the standards, a phased approach or additional transition relief would also give Canadian companies time to develop maturity on climate-related disclosures before incorporating additional requirements.

Timing of Reporting

We understand that CSSB is seeking feedback on the timing of reporting. Electricity Canada agrees with the aim to ultimately align the timing of sustainability disclosures with annual financial disclosures. However, Canadian utility companies have generally released their Annual Information Form (AIF) or the year-end annual Management's Discussion and Analysis (MD&A), and sustainability reports at different times in the year. Sustainability reports are generally reported later due to their reliance on third-party data, the complexity of collecting the data required to calculate certain sustainability metrics, including GHG emissions, and resource constraints during the year-end period.

Due to existing Canadian regulatory reporting requirements for GHGs, expedited reporting timelines to align sustainability and financial reporting will result in significant system redesign and process changes, incurring additional costs. In addition, expedited reporting may require the use of estimate-based accruals for a significant portion of the reporting period. This would reduce the accuracy and usefulness of the information and create

[1] https://www.securities-administrators.ca/news/canadian-securities-regulators-issue-statements-on-proposed-sustainability-disclosure-standards-and-ongoing-climate-consultation/

inconsistencies between estimated GHG emissions reported concurrently with annual financial disclosures and the actual GHG emissions reported for regulatory purposes later in the year.

As such, Electricity Canada members request that additional transition relief of at least one year be provided for disclosers to submit sustainability and climate information. This will be especially important for electricity companies who have not yet fully adopted the various international disclosure standards and will require additional time before being able to align the disclosures.

Additionally, the SEC recognized these challenges in its final climate-related disclosure rule by allowing registrants to delay disclosure of Scope 1 and 2 GHG emissions to the second fiscal quarterly report for the following year. We believe the CSSB should also consider modifying the timing of reporting Scope 1 and 2 emissions within CSDS 2 to align with this provision of the SEC rule.

Non-GHG SASB Metrics

Finally, we request additional clarification regarding which non-GHG SASB metrics (e.g., air pollutants, water management, waste, biodiversity, and ecosystems) should be used in "identifying the climate-related risks and opportunities that could be expected to affect an entity's prospects."[2] There is some confusion among Canadian companies regarding whether this includes SASB climate metrics outside of GHG emissions, and, if so, which specific metrics are relevant. Given that multiple companies have interpreted this differently, we kindly request that further detail be provided to elucidate the scope referred to in CSDS 2, paragraph 12.

We thank you for this opportunity to comment on the CSDS Exposure Drafts. Should you have any questions or require any additional information about our comments, please contact Diana Dominique, Electricity Canada's Senior Director, Customer Solutions and Sustainability. Diana may be contacted as follows:

Email: Dominique@electricity.ca
Telephone: 613-617-3461
Electricity Canada, 275 Slater Street, Suite 1500
Ottawa, Ontario K1P 5H9

Sincerely,

Francis Bradley
President and CEO
Electricity Canada

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[2] CSDS 2, Paragraph 12.