# Agenda

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<tr>
<th>Topic</th>
<th>Presenter</th>
<th>Timing</th>
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<tr>
<td>Policy, industry trends, and accounting</td>
<td>Bill Graf</td>
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<tr>
<td>Environments, Sustainability and Governance (ESG)</td>
<td>Kristen Sullivan</td>
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Policy, Industry Trends and Accounting
On the Legislative Front

• Politics and the influence of the legislature
  - Political landscape and energy policy
    ◦ Clean energy platforms and RPS
    ◦ Nuclear subsidies
    ◦ Future of natural gas

• Evolving Considerations
  - Alternative regulatory structures
    ◦ Performance and incentive based ratemaking
  - Green New Deal--AOC
  - Efforts to protect certain nuclear and coal-fired generation
On the Regulatory Front

• The FERC and the Commission complement
  − Agenda priorities
  − USOA revision

• Rate case activity
  − During 2018, 140 rate cases completed
  − As of September 30, 2019--75 rate cases completed and 110 pending
  − Issues related to non-rate case proceedings
  − RRA view—less investor risk where commissioners appointed versus elected
• Of the 54 completed rate cases in 2019, the average ROE requested was 10.16% and the average ROE approved was 9.64%
Where Are We Going?

- Affordability
- The customer experience
- Enterprise risk management
- Cyber security
- Mergers and acquisitions
- California extrapolation
- Insurance markets for P&U liability
- ESG
Accounting rules unique to rate regulated operations

• Abandonments
  − Unique rules for utility property
  − What to do around cost recovery

• Disallowance risk
  − Recently completed plant or plant under construction
  − Greater focus on prudency
  − Cost caps put focus on estimates to complete
  − Large project that goes over budget

• Phase in plans
  − Warning--if your next rate case involves:
    ◦ Major newly completed plant
    ◦ Required rate increase based on revenue requirements is a nonstarter
Regulatory assets and liabilities

• Assessing likelihood of recovery of incurred costs in future rates
  − Probability
  − Long-term regulatory assets

• Use of existing regulatory liabilities to help mitigate rate increases

• Which cost are you recovering?
ESG
ESG factors influence stakeholder decisions and affect the operational performance, access to capital, and reputation of Utilities.

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<th>Risk management</th>
<th>Value creation</th>
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<td>Emissions, effluents and waste management</td>
<td>Lower operating costs, improve liquidity, and enhance compliance environmental regulations.</td>
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<td>Climate-related risks and opportunities</td>
<td>Protect assets and provide continued service.</td>
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<td>Product sustainability</td>
<td>Reduce liability and financial risks, and meet customer demand for low carbon energy.</td>
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<td>ESG governance</td>
<td>New revenue opportunities from smart grid, energy management technologies, and customer-centric production systems to meet changing customer expectations.</td>
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<td>Community engagement</td>
<td>Increase investor confidence through board oversight, deployment of resources and expertise, and setting ESG-risk management frameworks.</td>
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<td>Strengthen stakeholder engagement and social license to operate and operational delays, and reputational risks.</td>
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Market demand for climate-related risk management increases the decarbonization expectations on the power and utilities sector and affects capital allocation

<table>
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<th>Investors</th>
<th>Shareholders</th>
<th>Raters and rankers</th>
<th>Standard setters</th>
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<tr>
<td>• 340+ investors ($34 trillion in assets under management) engaging the largest corporate greenhouse gas emitters to strengthen climate-related disclosures ¹</td>
<td>• More attention to the impacts of climate change on the financial markets e.g.: Moody’s and MSCI’s carbon transition risk ratings for corporates and acquisition of climate data providers ⁷,⁸</td>
<td>Disclosure of climate-related risks in line with the Task Force on Climate-related financial disclosures has been on the increase since 2016 ¹²</td>
<td>• More attention to the impacts of climate change on the financial markets e.g.: Moody’s and MSCI’s carbon transition risk ratings for corporates and acquisition of climate data providers ⁷,⁸</td>
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<td>• 200 Investors call on US companies to align climate lobbying with Paris Agreement ²</td>
<td>• Climate-related proposals for utilities focusing on coal risks, methane emissions, physical and transition risk analysis, and alignment with the Paris agreement ⁴</td>
<td>States and cities continue to expand electric vehicle policies ¹¹</td>
<td>• 340+ investors ($34 trillion in assets under management) engaging the largest corporate greenhouse gas emitters to strengthen climate-related disclosures ¹</td>
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<td>• 64% won’t take a job if a company doesn’t have strong corporate social responsibility values ³</td>
<td>• Renewable energy power purchase agreements (PPAs) signed by US corporations up to 9.1 GW in 2018 from 0.6 GW in 2015 ⁵</td>
<td>About a dozen states have renewable portfolio standards of 50 percent or more ⁹</td>
<td>• 200 Investors call on US companies to align climate lobbying with Paris Agreement ²</td>
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Role of the audit committee in ESG governance

The board, including the audit committee, and senior management are increasingly expected to understand, assess and oversee ESG-related risks as part of company’s long term strategy.

- **Engage with investors, analysts and other stakeholders**
  - Understand market ESG profile and promote investor confidence by demonstrating a command of ESG matters relevant to the business

- **Promote ESG integration into ERM and strategic decision making**
  - Advise on steps to more effectively embed ESG into enterprise risk, performance management and assurance practices

- **Understand how the organization’s ESG efforts align with board expectations**
  - Understand the internal governance structure around ESG, including roles, responsibilities, data management, control environmental, reporting and disclosure

- **Obtain assurance from financial statement auditor**
  - Influence complete, accurate, and timely disclosure of ESG information that is material to investor decision-making
Appendix
Power and Utilities Industry
*MSCI Industry Report – Utilities, August 2019*

**High capital intensity and long asset lives = 20 years to transition to low carbon intensity, time to plan is running out**

**Energy transition to a low carbon world**

- 40% of capital invested in utilities is at higher risk of energy transition due to the link to carbon-intensive operations.

- 38% of utilities have decarbonization targets, and if met, is far from what the industry needs to deliver to be in line with a 2 degree or below scenario (i.e. 90% emissions reduction by 2050).

- Utilities would face costs from tightening decarbonization policies if governments or regulators aligned their policies to 2 or 1.5 degrees warming scenarios.
Power and Utilities Industry

*New Energy Outlook 2019, Bloomberg NEF*

- US power sector emissions decline 54%
- Global power demand has grown by 62%
- Coal only supplies 12% of world electricity
- Peaking gas plants increase 350% increase
- Gas fired power has grown .6% per year and is used to supply system back-up and flexibility

Coal peaks globally

There is more wind and solar electricity in the world than coal-fired electricity

Utility-scale batteries for peaking purposes start growing in significance, supporting renewables penetration

- Coal collapses everywhere in the world, except Asia
- Declining cost of wind, solar and battery technologies disrupt the commodity cycle all over the world
- The U.S. electricity system continues to replace aging coal and nuclear with cheaper renewables and gas, which become the country’s premier source of power generation
Climate-related financial disclosures
While disclosure has increased since 2016, it is still insufficient for investors

Key considerations for enhanced disclosures

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<th>Provide more clarity on the potential financial impact of climate-related impacts, and address the materiality of climate-related impacts</th>
<th>Clarify the resilience of the organization strategy to different climate scenarios</th>
<th>Mainstream climate-related issues through the involvement of multiple business functions</th>
<th>Address the different TCFD recommendations, and not just a subset, and provide clarify on connection between disclosures</th>
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<td>Adopt the correct lens for climate-related risks and opportunities by focusing on the impact on the business</td>
<td>Differentiate between the role of the board and management</td>
<td>Clarify the interrelationship between climate change strategy and risk management</td>
<td>Link the financial and non-financial information and provide connections between financial planning, performance and strategy</td>
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TCFD: 2019 Status Report, June 2019
TCFD Good Practice Handbook, September 2019
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