



July 6, 2016

VIA E-Mail comments@sasb.org

Sustainability Accounting Standards Board
Attn: Bryan Esterly
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Re: AGA's Comments on the SASB's Proposed Rules of Procedure

Dear Mr. Easterly:

The American Gas Association (AGA) appreciates the opportunity to comment on the Sustainability Accounting Standards Board's (SASB) Proposed Rules of Procedure.

The American Gas Association, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 72 million residential, commercial and industrial natural gas customers in the U.S., of which 95 percent – just under 69 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international natural gas companies and industry associates. Today, natural gas meets more than one-fourth of the United States' energy needs.

AGA and its members are leaders in sustainability and have participated for over 20 years in the EPA's voluntary Natural Gas STAR program to share technologies and innovations for improving the environmental performance of natural gas systems.¹ AGA's Board of Directors has adopted

¹ Environmental Protection Agency, Natural Gas STAR Program, <http://www3.epa.gov/gasstar/basic-information/index.html#overview1>.

a Commitment to Enhancing Safety,² and has approved voluntary AGA guidelines³ for reducing natural gas emissions. As a result of our members' commitment to safety and efforts to modernize their distribution infrastructure, the recent updated EPA Inventory of Greenhouse Gas Emissions issued April 15, 2016 shows that emissions from natural gas distribution have dropped an impressive 74 percent since 1990, even as the industry added over 300,000 miles of distribution mains to serve 17 million more customers, an increase of 30 percent in both cases. AGA members also showed up in force to support the launch of EPA's new voluntary Methane Challenge program in March 2016.⁴ All 41 companies that volunteered as Founding Partners are AGA members. However, as detailed below, while we actively support sustainability, we have serious concerns about shortcomings in the non-transparent and unbalanced process already used to develop SASB's Gas Utilities Provisional Standard and the failure of the Proposed Rules of Procedure to meet basic requirements for [American National Standards Institute \(ANSI\)](#)-accredited standards bodies.

AGA is an ANSI-accredited standards body, and we have extensive experience following proper ANSI procedures to develop ANSI-accredited consensus industry standards. SASB's process is clearly not consistent with ANSI requirements. We encourage SASB to revise its Rules of Procedure and governance structure to align with ANSI requirements for *consensus* industry standards development and to reassess its draft or provisional standards following the ANSI process.

I. The Process Described Does *Not* Reflect a Transparent, Market-Informed or Balanced Approach to Standard-Setting

Although SASB claims ANSI accreditation in the Rules of Procedure⁵ and in its website and other materials, SASB has not followed ANSI Essential Requirements for processing the proposed change in procedure. First, the proposed change in procedure has not been coordinated through ANSI. Second, it has not been announced in an ANSI Standards Action Notice. Third, it

² Natural Gas Utilities Renew Commitment to Enhancing Safety, October 2015, <https://www.aga.org/news/news-releases/natural-gas-utilities-renew-commitment-enhancing-safety>.

³ AGA Guidelines for Reducing Natural Gas Emissions From Distribution Systems, May 17, 2014, https://www.aga.org/sites/default/files/aga_guidelines_for_natural_gas_emission_reduction_bd_approved_may_17_2014.pdf.

⁴ See EPA Methane Challenge web site, <https://www3.epa.gov/gasstar/methanechallenge/>.

⁵ Proposed Rules of Procedure, p. 1.

is doubtful that ANSI would approve the Proposed Rules of Procedure. SASB concedes in a footnote on page 5 of the Proposed Rules of Procedure:

At time of publication, SASB has not formed a Consensus Body or declared its intent to develop an American National Standard through the ANSI Project Initiation Notification System (PINS). These Rules of Procedure are not intended to be considered Standards Development Procedures in compliance with ANSI Essential Requirements.

This statement is strange and logically inconsistent, since ANSI accreditation is achieved only through submittal of a standards development procedure. We question how SASB obtained its accreditation, and can only surmise that SASB must have submitted a Rules of Procedure document to ANSI at some time in the past. SASB evidently followed that Rule of Procedure to develop its Draft and Provisional Standards – including those purporting to cover natural gas utilities. Failure to disclose that procedure now hardly represents a transparent process, and it is certainly inconsistent with ANSI requirements.

The appeals process is also insufficiently transparent. The procedure does not contain an ANSI required appeals process. Appeals and complaints are briefly mentioned but not fully described.⁶ A Standards Oversight Committee (subset of the board) receives and reviews appeals and other complaints. There are no details or time limits on how these appeals are handled.

The process also ensures an unbalanced approach to standards development, largely due to the lack of representation from affected industries, as we discuss below in section III.

II. SASB’s Proposed Process will Not Facilitate Material, Decision-Useful or Cost-Effective Disclosures

A fundamental flaw woven into the fabric of SASB’s Rules of Procedures is the absence of any meaningful representation on its key voting bodies by individuals with operational expertise in the 79 industries to be covered by SASB’s “standards.” The Proposed Rules of Procedure provide for “consultation” with corporate issuers, but there is no provision for true, balanced representation of the affected industry on the body that is balloted and allowed to vote on proposed standards, as would be required for ANSI consensus standards.

⁶ Proposed Rules of Procedure, pp. 2.

Industry expertise is critical to developing cost-effective, relevant consensus standards, particularly for a highly-regulated industry such as natural gas distribution utilities. The business model and operating issues for gas utilities differ significantly from non-utility industries. State public utility commissions closely regulate the rates gas utilities may charge their customers, the allowable profits they can earn on gas delivery services, the mechanisms used to allow the utility to pass through the cost of the natural gas commodity (with no profit), and the level of capital expenditures the utility is allowed to incur to install or replace distribution pipelines and ensure a safe and reliable gas delivery system. The U.S. Department of Transportation, Pipeline Safety and Hazardous Materials Administration (PHMSA) also regulates utility pipeline safety under a series of highly technical regulations. This requires involving the gas utility industry and those with relevant expertise in any attempt to craft standards affecting gas utilities. Accordingly, AGA was disappointed that the work groups SASB used to create the Draft Gas Utilities Standard did not allow for input from the industry but only surveyed a limited number of utility employees who lacked the requisite array of technical expertise and who were not allowed to consult with their companies or colleagues who could have provided the necessary expertise. It appears SASB's process going forward will continue to provide inadequate representation for the gas utility industry.

According to the Proposed Rules of Procedure:

The SASB will regularly consult with relevant stakeholders for input on its standards-development process. Generally the SASB will focus stakeholder "consultation on corporate issuers, investors, analysts, and other market participants and intermediaries

It is not clear how this "consultation" would take place, or who would determine what actions or disclosures might be "cost-effective" for a particular industry or how they would make such a determination. There is no indication that SASB would consult with "corporate issuers" with balanced representation in each of the 79 affected industries for each of the 79 standards. As discussed below, the proposed governance structure would give authority to vote on standards to only *three* "corporate issuer representatives" – out of 79 different industries.⁷ That necessarily means that individuals that have no expertise in gas utility operations or understanding of its regulatory context will vote on standards for gas utilities. With respect, we believe that an individual with expertise in another industry cannot hope to know what types of disclosures might be material, decision-useful or cost-effective for natural gas distribution utilities.

⁷ See Proposed Rules of Procedure, p. 9.

III. The Governance Structure is Not Clear or Appropriate and is Virtually Guaranteed to Produce Poor-Quality Outcomes

SASB purports to create accounting standards in 10 sectors covering 79 industries. State utility commission-regulated natural gas and electric utilities are combined in a sector called “Infrastructure” with such unrelated industries as waste management, real estate owners, developers & investment, home builders and real estate services.⁸ Even if there were one representative for each sector, that lone representative would not have the requisite knowledge to understand the operations and business model for all the disparate industries in what SASB calls the “Infrastructure” sector. And yet, according to the Proposed Rules of Procedure:

*The Standards Council will be composed of nine members appointed by the SASB Board of Directors, including a Chair, with equal representation of corporate issuers, investors, and a third category of other stakeholders such as accountants, lawyers, public servants, nongovernmental organizations.*⁹

In the Proposed Rules of Procedure, SASB claims to have balanced representation:

Standards Council Membership: The SASB’s Standards Council, which ultimately votes to ratify any changes to the SASB Code, will be comprised of balanced representation from each of the SASB’s key stakeholder groups.

However, with only nine members – only three of whom would be drawn from corporate issuers – and a need to provide balanced representation of 79 different industries, it is clearly *impossible* for the Standards Council to achieve balanced representation of all sectors and industries covered by SASB. It is unclear if any of the affected sectors or industries will be represented on the council.

Further, the Proposed Rules of Procedure state that a Standards Setting Organization (SSO) will develop standards and seek stakeholder and public feedback to inform their work, but there is no indication regarding who will be appointed to the SSO and how affected industries would be represented on the SSO, if at all. Given references to SSO staff, it appears this body may be

⁸ SASB Proposed Conceptual Framework, Exposure Draft, Appendix: SASB’s Sustainable Industry Classification System™.

⁹ Id., Executive Summary, p. 1; see also p. 9.

comprised solely of SASB employees. Only the “Standards Council, however, will have the ultimate authority to approve or reject standards proposed by the SASB staff.”¹⁰

The Standards Council would be appointed by the SASB Board, but the Proposed Rules of Procedure are silent as to the composition of the Board. There is no indication that the Board would be balanced or representative. The procedures should also detail the composition of the Board Governance and Nominating Committee, which has influence over the Board Standards Oversight Committee and the Standards Council.

In footnote 1, SASB notes that it has not formed a “Consensus Body” or declared its intention to develop any standards following ANSI’s requirements. We believe SASB’s reluctance to follow the standard-setting process established by ANSI undermines SASB’s influence. If SASB wishes to continue prominently announcing its ANSI affiliation on its website and in its publications, to avoid being misleading, SASB should undertake to develop a process and governance structure that meets ANSI requirements, then follow ANSI requirements in standards development.

In conclusion, AGA finds that SASB’s Proposed Rules of Procedures are fatally flawed. We encourage SASB to follow ANSI’s requirements in its process and standards development. AGA will provide comments on SASB’s Provisional Gas Utilities Standard at a later date. For now we will note that the process SASB used in its development prevented effective representation of the gas utility industry by individuals with the requisite expertise in gas utility operations and environmental management, and this inevitably resulted in a Draft Standard that would not offer useful guidance for making material disclosures on sustainability issues.¹¹ While we appreciate SASB’s attempt to respond to our comments by making changes in the Provisional Standard, it still misses the mark, most likely because it rests on a shaky foundation created by the original lack of balanced, representative gas utility industry input in the process used to develop the Draft Standard.

¹⁰ Proposed Rules of Procedure, p. 8.

¹¹ See AGA’s Comments on SASB’s Draft Gas Utilities Standard, January 28, 2016 at https://www.aga.org/sites/default/files/2016_01_28_aga_comments_sasb_natural_gas_distribution_final.pdf.

We caution that the SASB must refrain from any characterization of AGA's comments as providing any form of support or validation of the Proposed Rules of Procedure or SASB's standards development, including any inference that industry input was satisfactorily considered in the development of SASB's Proposed Rules of Procedure or other SASB documents, or that any resulting Gas Utilities Standard represents a "consensus" based on alleged industry input.

If you have any questions, please contact me.

Sincerely yours,

A handwritten signature in black ink that reads "Pamela A. Lacey". The signature is written in a cursive, flowing style.

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