



January 28, 2016

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

**Re: AGA's Comments on the SASB's Exposure Draft Sustainability Accounting Standard for Gas Utilities**

Dear Mr. Easterly:

The American Gas Association (AGA) appreciates the opportunity to comment on the Sustainability Accounting Standards Board's (SASB) "Exposure Draft Sustainability Accounting Standard for Gas Utilities" (Gas Utilities Draft Standard or Draft Standard).

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 continuously enhancing their operations through best practices, innovative programs and upgrading and modernizing the distribution system. Member companies have participated for over 20 years in the U.S. Environmental Protection Agency's (EPA) voluntary Natural Gas STAR program to share technologies and innovations for improving the environmental performance of natural gas systems.<sup>1</sup> AGA's Board of Directors has adopted a Commitment to Enhancing Safety,<sup>2</sup> and has approved voluntary AGA guidelines<sup>3</sup> for reducing natural gas emissions. As a result of our members' commitment to safety and efforts to modernize their distribution infrastructure, emissions from distribution have dropped 16 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 and its members support sustainable business practices and disclosure and, therefore, have serious concerns about shortcomings in the SASB's Gas Utilities Draft Standard and the non-transparent process used in its development.

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

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

<sup>3</sup> 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](https://www.aga.org/sites/default/files/aga_guidelines_for_natural_gas_emission_reduction_bd_approved_may_17_2014.pdf).

The SASB describes the industry intended for its Gas Utilities Draft Standard as comprising gas distribution and marketing companies. As the leading voice representing the natural gas distribution sector, AGA feels compelled to provide comments on the Draft Standard. However, AGA's comments should not be considered equivalent to participation in the development of the Gas Utilities Draft Standard. Neither AGA nor natural gas distribution companies were consulted or involved in developing the Gas Utilities Draft Standard on which the SASB is now seeking comment.

In addition, AGA has had the opportunity to review comments of the Edison Electric Institute (EEL) on the Exposure Draft Sustainability Accounting Standard for the Electric Utilities Industry (Electric Utilities Draft Standard). EEL's comments identify significant problems with the process through which the SASB developed the Electric Utilities Draft Standard as well as the content of the Electric Utilities Draft Standard. As described in more detail below, AGA supports EEL's comments and identifies similar concerns related to the Gas Utilities Draft Standard.

We note that unlike the Financial Standards Board (FASB), the newly formed SASB has no official role in financial reporting. FASB is the designated organization in the private sector for establishing standards of accounting that govern the preparation of financial reports by nongovernmental entities. Those standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC)<sup>4</sup> and the American Institute of Certified Public Accountants.<sup>5</sup> The SASB is not officially recognized as an authoritative standard-setting entity. AGA member companies follow FASB standards and SEC guidance in order to disclose material information that investors would need to evaluate a prospective investment. This includes material information about the benefits and contribution of natural gas in reducing greenhouse gas emissions by displacing higher emitting sources for power generation as well as natural gas combined heat and power for industrial and commercial energy needs, and for direct use of natural gas in homes and businesses for heating space and water.

AGA recognizes the importance of informing investors, the public, and policymakers on the role of natural gas as a foundation for a clean energy economy. However, we question whether this unofficial body is the appropriate organization for developing new financial disclosure standards, and we are concerned with the woefully inadequate and largely secretive and hasty process used to develop the Gas Utilities Standard. AGA was first contacted during the holidays at the end of 2015, at a time when AGA and our member experts were pressed to review and comment on several federal agency rulemakings and initiatives with comment deadlines in December and January. We were not invited to participate in the Industry Working Group to assist in the development of the standards which began in May 2015 – despite being a named industry association to which the SASB's Stakeholder Engagement Team conducted outreach. Instead, the SASB presented AGA with a nearly final product, and requested us to review and provide comments immediately after the holidays. This time constraint, and the fact that many of our member experts on gas operations, environmental policy, utility commission policy, financial standards and cybersecurity were out of the office during this time of year, made it exceedingly difficult to obtain member input. The proposal touches on many aspects of gas utility operations and calls for input from several different AGA committees. While we appreciate SASB's willingness to provide a short extension to the original requested deadline, the amount of time provided does not allow for the degree of industry involvement and technical review required for a true industry consensus standard.

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<sup>4</sup> Financial Reporting Release No. 1, Section 101, and reaffirmed in its April 2003 Policy Statement.

<sup>5</sup> Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979.

**A. The Gas Utilities Draft Standard Is Not the Product of Collaborative Stakeholder Involvement through an Open and Transparent Process**

AGA has significant concerns with the process through which the SASB developed the Gas Utilities Draft Standard, and, specifically, the lack of input provided by the gas utility industry in developing the standards. AGA's concerns are consistent with the concerns identified by EEI for the Electric Utilities Draft Standard.

Pursuant to the National Technology Transfer and Advancement Act of 1995, the Office of Management and Budget (OMB) has issued Circular A-119, to encourage agency participation in consensus standards bodies such as those developing ASTM and ANSI standards, to benefit from industry expertise and to use voluntary consensus standards in regulation where appropriate.<sup>6</sup> As defined in that OMB Circular, a "voluntary consensus standard" is one that is adopted by a body that has the following attributes: openness, balance of interest, due process, an appeals process, and consensus.<sup>7</sup> The SASB does not appear to have incorporated or abided by these attributes. Nor does the SASB include a private industry advisory council on the order of FASB's to obtain knowledgeable industry advice in developing standards.

An informative and meaningful industry voluntary consensus standard can only be developed through an open process that solicits input from that industry as the standards are drafted, not just after the fact. Unfortunately, the Gas Utilities Draft Standard was not developed through open, industry-informed input. A limited number of individuals employed by the natural gas distribution industry, some without the necessary expertise, provided input in developing the Gas Utilities Draft Standard. However, the natural gas *industry* was not part of the standards making body or the voting process. Notably, AGA was absent from this process, despite being the voice of the natural gas distribution industry and despite being explicitly named as an industry association that the SASB would seek out to provide input for *developing* the draft standards for the Infrastructure sector.<sup>8</sup> Moreover, as noted by EEI, those individuals that did participate to some degree in the "Industry Working Groups" to develop the standards participated as individuals, not on behalf of their organization. AGA has learned that those individuals that the SASB invited to participate were not allowed to discuss the content of the Draft Standard with other members of their company. On more than one occasion, the company has determined that the employee inaccurately identified their company role or did not have the requisite knowledge of greenhouse gas emissions measurement, sustainability, local distribution company rate-making, or operations to appropriately or competently provide responses for the industry. Furthermore, even if the individual did have some knowledge to comment on a facet of the standard, as mentioned earlier, the Draft Standard covers and impacts numerous aspects of gas utility operations. By manipulating comment from such a narrow set of individuals and refusing to allow for a collaborative response, the input that the SASB received necessarily could not have been comprehensive.

As a result of the way that the SASB solicited involvement and responses through its Industry Working Group, it is misleading and wrong to suggest that the Gas Utilities Draft Standard is the product of industry collaboration. Because participants did not represent the views of their employers, distinguishing participants by "corporations" is a truly misrepresentative characterization of the type of collaboration involved in developing the Draft Standard. The process also is inconsistent with the

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<sup>6</sup> 81 Fed. Reg. 4673 (Jan. 27, 2016) (Revision of OMB Circular A-119, "Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities").

<sup>7</sup> OMB Circular A-119 §4(a), 63 Fed. Reg. 8546, 8554.

<sup>8</sup> See SASB Industry Working Groups Due Process Report, August 27, 2015 at 6.

SASB's own standards development process, which describes the Industry Working Group as being comprised of a "balanced representation from corporations, market participants (investors and analysts), and intermediaries."<sup>9</sup> There was no representation of "corporations" in the working group. ANSI accreditation is contingent on the standard setting body following its own written procedures. By not following its own procedures, the SASB failed to comply with ANSI's accreditation requirements, and risks, among other potential consequences, withdrawal of accreditation.<sup>10</sup> AGA fully supports and agrees with EEI's concerns with attributing responses from employees of utilities as representing the views of the company that employs them.

In addition, AGA agrees with EEI: the SASB must refrain from any characterization of AGA's comments as providing any form of support or validation of the proposed disclosures, including any inference that industry input was satisfactorily considered in the development of the proposed disclosures or that the Gas Utilities Draft Standard represents a "consensus" view on such disclosures.

AGA also is troubled by the limited number of individuals that were involved in developing the Gas Utilities Draft Standard through the Industry Working Group. The SASB asserts there were 483 total "commitments" for the Industry Working Group.<sup>11</sup> Based on feedback from AGA member companies, individuals identified as "committed" in no way considered themselves committed to providing feedback and were surprised to find their name listed in the report. Of the 483 "committed" participants, the SASB only received 175 completed surveys.<sup>12</sup> And of these 175 completed surveys, only twelve individuals provided feedback to SASB for developing the standard: five from "corporations"; two from "investors"; and five from "public interest."<sup>13</sup> Feedback from such a limited number of individuals in no way provides the types of robust technical input necessary for developing the type of standard that the SASB is purporting to develop.

It also is clear to AGA that the SASB did not fully consider the limited input it was provided by the working group. For example, downstream emissions management was ranked last by the Industry Working Group, yet the SASB retained it in the Gas Utilities Draft Standard. Furthermore, when reviewing the comments provided on this topic, it appears that at least two survey participants did not understand the scope of this topic. One participant supported the topic with a comment related to the source of the natural gas, and, in particular, whether hydraulic fracturing was involved; a second participant that supported the disclosure topic stated "emission regulations, taxes."<sup>14</sup> These comments are inapposite to the scope of the disclosure topic.

AGA has not reviewed the other draft sustainability standards for infrastructure. However, the fact that such a flawed process was used to develop both the Gas Utilities and the Electric Utilities

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<sup>9</sup> SASB Conceptual Framework, October 2013, at 21.

<sup>10</sup> ANSI Essential Requirements: Due process requirements for American National Standards, Section 4.1.4, January 2016.

<sup>11</sup> *Id.* at Exhibit E.

<sup>12</sup> *Id.* at Exhibit D.

<sup>13</sup> *Id.* at Exhibit G.

<sup>14</sup> SASB, Supplement to Standards Outcome Report, Infrastructure at 88-89.

standards suggests that the entire series of infrastructure standards were developed without input from the relevant industries.

**B. The Draft Standard's Proposed Disclosures Are Unnecessary to Ensure the Disclosure of Material Facts and Inconsistent With Current Disclosure Initiatives**

AGA agrees with EEI's comments that the proposed disclosures are not required under SEC reporting rules. As EEI points out, the SEC disclosure rules cited by the SASB have been in existence for many years. AGA members endeavor to comply with these rules in both form and substance. AGA is not aware of the SEC nor independent accounting firms, both of which have reviewed our members' filings, ever having asserted that the types of disclosures that the SASB seeks are universally required to align with the SEC's reporting rules concerning materiality. Instead, as EEI lists, there are numerous applicable SEC requirements that already address the SASB's proposed disclosure topics in a focused, relevant way tailored to financial reporting.

AGA also supports EEI's comments that the SASB relies on an incorrect understanding of materiality. As EEI explains, the SASB standards improperly define materiality divorced from the context of and purpose of reporting and explaining historical financial results.

As EEI points out, the SASB's approach of standardized disclosures is inconsistent with the focus and direction of current disclosure effectiveness initiatives by the SEC and the FASB. Both of these organizations have offered proposals designed to improve the effectiveness of disclosure reporting by having disclosures focus on the information that is most meaningful and material for investors to make informed decisions. The SASB's intent to impose broad and voluminous disclosures, regardless of whether the content is material, important or even relevant to understanding the financial results of an individual company's business, cannot be reconciled with the focus of the SEC and the FASB.

As discussed in more detail below, AGA members already report many of the proposed metrics to federal or state agencies. In addition to failing to recognize the duplicative nature of this reporting, the SASB has not attempted to reconcile duplicative or conflicting reporting requirements with other reporting constructs such as the Global Reporting Initiative and the Carbon Disclosure Project, among others. As EEI points out, adding another approach that layers on requirements and does not integrate and simplify this information would increase confusion rather than provide focused, effective disclosures.

The duplicative and redundant nature of SASB's "voluntary" uniform standard reporting creates new costs that are not necessary in the provision of service to the utility's customers, thus unnecessarily raising cost to the utility customer. As the Draft Standard points out, state commissions already have the authority to require utilities to accumulate and report these costs (California, Minnesota, New York) on an individual state basis. There is no indication that any state commission weighed in on the Draft Standard, highlighting the lack of transparency in the process.

**C. The Proposed Disclosure Topics Do Not Define Metrics Appropriate For or Applicable To Natural Gas Utilities**

A comprehensive understanding of all aspects of an industry is critical to developing meaningful metrics and standards for the industry. It is apparent from the Gas Utilities Draft Standard's proposed disclosure metrics that this comprehensive understanding was lacking, the result of the flawed process identified above. AGA's substantive comments on the proposed disclosure topics and metrics are not meant to be comprehensive, but instead illustrative of the fundamental flaws found throughout the Draft Standard.

There are several flaws applicable across all three disclosure topics and underlying metrics. Notably, there is no description or discussion on why these particular metrics constitute “material sustainability topics” or elaboration as to why these topics, let alone these specific metrics, are “reasonably likely to have a material effect on the financial condition or operating performance of companies.” Furthermore, the document requires reporting of various metrics that are already reported to other federal agencies. AGA members already report several of the proposed metrics to federal or state agencies, such as EPA, the Department of Transportation (DOT) Pipeline and Hazardous Materials Safety Administration (PHMSA), the Department of Energy (DOE) Energy Information Administration (EIA), and the applicable state public utility commissions. The Draft Standard does not acknowledge existing reporting requirements and therefore the duplicative nature of this exercise. For example, emissions data are already reported under the EPA’s GHG Reporting Program; pipeline mileage and incidents to DOT.

AGA believes that EEI’s concerns regarding the context, resolution, and definitions of the metrics contained in the Electric Utilities Draft Standard are equally applicable to the metrics included in the Gas Utilities Draft Standard. As EEI notes, environmental metrics often are difficult to define in a way that is meaningful or comparable. Similar to the Electric Utilities Draft Standard, the Gas Utilities Draft Standard also includes metrics that lack context and that are defined as absolute or total measurements. By proposing standards that fail to normalize or account for the diversity of the industry, the metrics fall short of their intended goal of providing standardized metrics to communicate performance on sustainability topics.

### **1. Downstream Emissions Management**

The Downstream Emissions Management disclosure topic is based on a fundamental misunderstanding of natural gas distribution economics. Natural gas utilities are highly regulated by state utility commissions, which set rates to allow a “just and reasonable” rate of return. But that rate of return is earned on the capital invested in infrastructure – pipe in the ground needed to provide transportation services – not on the natural gas commodity itself. Gas utilities pass through their own cost of natural gas without any additional profit. The leak reporting sections apparently assume that investors would earn a profit on recovered gas – if low level, non-hazardous leaks were reduced and small amounts of gas were recovered. This is not the case and demonstrates a complete lack of understanding of the business aspect of natural gas utilities.

There are several provisions that overlap, duplicate or could conflict with existing emission and pipe replacement reporting. Notably, natural gas utilities report emissions data to EPA’s Greenhouse Gas Reporting Program. EPA is now in the process of updating its methods for estimating emissions from natural gas distribution for the U.S. Greenhouse Gas Emissions and Sinks<sup>15</sup> to reflect recent more robust data that shows emissions from the distribution sector are much lower than previously thought. In fact, based on data from a multi-city distribution study conducted by Dr. Brian Lamb of Washington State University, emissions from the natural gas distribution sector are estimated to be only 0.01 percent of annual production. EPA also plans to update its reporting rules to reflect this new data and adopt more accurate emission factors for reporting distribution company emissions. EPA posts gas utility emission reports on the EPA reporting program web site. It would seem that

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<sup>15</sup> Inventory of U.S. Greenhouse Gas Emissions and Sinks: Revisions under Consideration for Natural Gas Distribution Emissions, December 2015, <http://www3.epa.gov/climatechange/ghgemissions/usinventoryreport/Proposed%20Revisions%20to%20NG%20Distribution%20Segment%20Emissions.pdf>.

this is the more appropriate venue for providing standardized, comparable data to the public. Whether such data is “material” to investor decisions should be governed by normal securities law.

The metrics for downstream emissions management also fail to acknowledge PHMSA's risk-based regulatory framework and integrity management program requirements that are applicable to natural gas utilities. These regulatory requirements were developed to encourage the safe and reliable operation of the natural gas distribution infrastructure and have the added effect of decreasing emissions.

Aside from being duplicative and arguably unnecessary, the metrics and guidance provided for Downstream Emissions Management are confusing and, in some cases, internally inconsistent and contradictory. For example, the Draft Standard conflates lost and unaccounted for gas as “leakage,” but then excludes reporting of “lost and unaccounted for gas” through what it calls “non-leakage” events, which itself is undefined. The Draft Standard also provides no guidance on how the exclusion of pressure and temperature measurement errors should be accomplished, nor does it provide guidance for other system activities or factors such as gas theft that could contribute to lost and unaccounted for gas figures.

For “relevant guidance” for leakage, the document cites only a California Senate Bill and one volume of one report, the 1996 GRI/EPA study. The volume cited relates specifically to equipment leaks, and covers many source categories that are not readily applicable to natural gas distribution systems. There is no acknowledgement of the wider body of work from the GRI/EPA study, nor subsequent studies that have been completed in intervening years. In addition, the Draft Standard cites various “techniques or technologies” without any consideration of the appropriate or applicable situations, conditions, or merits for use of these techniques or technologies. There is no consideration for cost of these techniques or technologies as well. Finally, there is no acknowledgement that pipeline leaks are already estimated using emissions factors per EPA requirements in its GHG Reporting Program. These leak estimates are calculated by multiplying the relevant emission factor by a utility's activity data, which in the case of pipelines is the mileage of pipeline by material and type as reported to DOT. In this case, reporting both pipeline leaks and the types of pipeline mileage is not only redundant to other efforts, but also internally redundant to this project.

There are similar concerns and problems with metrics associated with efficiency measures and regulatory savings. For example, the Draft Standard would require reporting of efficiency savings with no further guidance. The Draft Standard fails to account for the fact that state and company efficiency programs vary tremendously. There is no guidance on which programs, e.g. rate-payer funded efficiency programs, consumer education campaigns, utility energy service contracts, should be included. Should indirect activities, such as online tools, on-site energy audits, behavioral conservation programs, home savings evaluations, and school-based education programs, be included? This broad brushed approach only serves to obscure rather than illuminate the activities underway by gas utilities to enhance energy savings for consumers.

In addition, the Draft Standard would require the reporting of “gas savings,” defined as the difference between consumption and that which would have been consumed had efficiency measures not been implemented. There is no explicit distinction in the Draft Standard between gross efficiency savings and net efficiency savings. Net efficiency savings could exclude free riders, spillover, and savings due to government mandated codes and standards, reduced usage owed to business or business cycle fluctuations, and reduced usage because of natural operations of the market place.

## **2. Operational Safety & Emergency Management**

There are many problems with the metrics proposed in this section of the SASB proposal, likely due to the lack of input from industry operations experts during the development of the proposal. As just one example, IFO 102-107, "Percentage of pipeline operators currently qualified to perform covered tasks," calls for reporting the "percentage of pipeline operators" apparently referring to gas utility employees, but perhaps also contractors – that are "currently qualified to perform covered tasks." If SASB had consulted with natural gas operations experts in the development process for this proposal, this provision might be consistent with industry practices. However, as proposed, this provision in the proposal makes no sense given that personnel numbers change constantly with attrition and new hires, and as operating companies retain and release contractors. Additionally, each natural gas operating company can have different operator qualified (OQ) tasks under PHMSA's OQ regulations; whereas the proposal assumes all companies are universally the same and comparable using the proposed standard. Every natural gas company is structured differently. Some operators rely on contracted employees to perform a majority of OQ tasks, other operators strictly utilize company employees, while most use a mixture of company employees and contracted workers. A metric such as the percentage of employees that are OQ'd would be a poor indication of the strength of a company's operator qualification program. Following PHMSA's OQ rule is the more relevant question, and if there were any material non-compliance, disclosure would be governed under existing SEC requirements and guidance.

The proposed accounting metrics associated with IF0102-08, "Discussion of Management Systems Used to integrate a culture of safety and emergency preparedness throughout project lifecycles" also highlight the disconnect between the Draft Standard and the industry. The metrics discuss management systems to integrate a culture of safety and emergency preparedness throughout *project lifecycles*. However, management systems are holistic approaches to manage a complex process. To be successful, a safety management system must be applied throughout an organization over time, not to individual pipelines or pipeline segments. This also is true for a safety culture. It must be applied and practiced throughout an entire organization. The Draft Standard has selected some of the elements and terms included in safety management systems and applied them to projects involving individual pipelines or pipeline segments. Elements of safety management systems are meant to be applied in a systematic way to an entire organization.

## **3. Distribution Network Resiliency**

The metrics that the Draft Standard proposes for Distribution Network Resiliency also are flawed as a result of the SASB's failure to consult with industry. For example, reporting the number of service interruptions does not recognize that most natural gas service interruptions are the result of planned work. Replacing and upgrading service pipeline material requires the current service to be interrupted when the pipe is replaced. These relatively short duration interruptions do not rise to the level of materiality.

However, for this disclosure, the metrics are not just duplicative and/or unworkable. Much of the information that the Draft Standard would have companies include in their public filings would have the effect of increasing the probability of a cybersecurity attack and the success of such attackers.

In particular, the Draft Standard would have companies publicly disclose efforts to identify and mitigate risks of technological service disruptions. Among other disclosures, a company would describe how it identifies and prioritizes threats and vulnerabilities to the network, observed trends in attacks, and how it identifies and prioritizes the potential for physical infrastructure to cause service disruptions. Disclosing this type of information in a public document at the detail that the Draft Standard requests would provide a detailed roadmap for would-be attackers, thus increasing the

probability of a successful attack. The SASB's inclusion of such information in its disclosure metrics is nothing short of reckless.

In addition to the critical failures in the types of information that the Draft Standard would have companies publicly disclose, the disclosure metrics for Distribution Network Resiliency also demonstrate the SASB's failure to comprehend the cybersecurity risks that natural gas utilities are combatting. The Draft Standard describes costs associated with preventing and responding to network attacks as additional costs that could detract from shareholder value. Furthermore, the metrics appear to blame companies for network failures that are the result of criminal activity. Natural gas utilities are heavily engaged in cybersecurity and the physical resiliency of their systems. Investments in safeguarding and defending the distribution network do not detract from shareholder value, but instead increase shareholder value.

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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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