February 14, 2022

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission, New Brunswick
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Office of the Superintendent of Securities, Newfoundland and Labrador
Ontario Securities Commission
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

Attention:

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Autorité des marchés financiers
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Re: CSA Request for Comment on Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*

Dear Sir/Madam,

Hydro One Limited (referred to as "Hydro One" or "we") appreciates the opportunity to provide comments in response to the Canadian Securities Administrators (CSA) Consultation: Climate-related Disclosure Update and CSA Notice and Request for Comment Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* dated October 18, 2021. We commend the CSA for seeking to move toward a standardized set of climate disclosures as we believe in and support transparent, consistent, and comparable standards in environmental, social and governance (ESG) reporting.

Overview of Hydro One

Hydro One, through its wholly-owned subsidiaries, is Ontario's largest electricity transmission and distribution provider with approximately 1.4 million valued customers, approximately $30.3 billion in assets (as at December 31, 2020) and annual revenues of approximately $7.3 billion (in 2020). Our team of approximately 8,700 skilled and dedicated employees proudly build and maintain a safe and reliable electricity system which is essential to supporting strong and successful communities. We are designated as a Sustainable Electricity Company by the Canadian Electricity Association.

Sustainability at Hydro One

At Hydro One, sustainability means that we are committed to operating safely in an environmentally and socially responsible manner and to partnering with our customers, Indigenous communities and other community stakeholders to build a brighter future for all. We publish an annual sustainability report to help our stakeholders, partners, customers, and communities better understand how we manage the related opportunities and challenges associated with our business.

We are committed to enhancing our reporting by keeping pace with the evolving ESG landscape and increasing the transparency and accountability of our disclosures. Our reporting is guided by the Global Reporting Initiative Standards Core option, the Sustainability Accounting Standards Board framework, and the Taskforce on Climate-related Financial Disclosures (TCFD) guidelines. Our previous sustainability reports and related policies can be found on our website at https://www.hydroone.com/sustainability/.

Comments

Hydro One welcomes this opportunity to provide comments and engage with the CSA on climate-related financial disclosure standards. We are providing comments in response to the CSA's Questions 1-8, 11-12, 15, 17a and 18, and are also providing additional comments based on broader consideration.

We support the CSA's decision to leverage the TCFD framework, which is widely used and accepted by many companies and investors. However, we recommend that the CSA consider providing issuers with additional flexibility as to the permitted locations for and timing of the proposed new disclosures. From our perspective, individual issuers would be best placed to determine in which of their public documents the proposed new disclosures would be most appropriate, given the individual circumstances of the issuer (for example, with regard to timing of data availability, as well as considering natural fit with other related elements in an issuer's existing disclosure). This would provide investors with access to high-quality, more current, and relevant data (reducing the time gap resulting from delays in data availability if disclosures were only required in the specified reporting documents), as well as help to balance the burden on issuers.

We also think that the CSA should clarify whether the current forward-looking information (FLI) regime applies to climate-related disclosures. In particular, issuers may find it difficult to determine whether there is a "reasonable basis" for assessing certain climate-related impacts.

Question #1. For reporting issuers that have provided climate related disclosures voluntarily in accordance with the TCFD recommendations, what has been the experience generally in providing those disclosures?

For Hydro One, providing climate related disclosures in accordance with the TCFD recommendations provides us a framework with which to report our work on reducing our carbon footprint and creating a resilient grid for the future. We integrated our broad alignment with the TCFD recommendations in our 2020 sustainability report for the first time and will continue to enhance our disclosures to further align with TCFD. We appreciate the flexibility embedded in the TCFD recommendations, with the timing and placement of disclosures at our discretion.

Question #2. For reporting issuers, do you currently disclose GHG emissions on a voluntary basis? If so, are the GHG emissions calculated in accordance with the GHG Protocol?

Hydro One currently discloses GHG emissions on a voluntary basis. Our GHG emissions are calculated in accordance with the World Resource Institute's *The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition*) (GHG Protocol) and regulatory reporting requirements prescribed by the Ontario Provincial Government.

Question #3. For reporting issuers, do you currently conduct climate scenario analysis (regardless of whether the analysis is disclosed)? If so, what are the benefits and challenges with preparing and / or disclosing the analysis?

and

Question #4. Under the Proposed Instrument, scenario analysis would not be required. Is this approach appropriate? Should the Proposed Instrument require this disclosure? Should issuers have the option to not provide this disclosure and explain why they have not done so?

We support the approach proposed by CSA for scenario analysis and believe that issuers should be permitted to report climate scenario analysis on a voluntary basis.

At Hydro One, we conduct scenario analyses to understand both the opportunities and risks associated with climate change. These types of analyses offer a path to assess the likelihood of potential climate-related impacts and opportunities for our business. However, building out detailed outlooks is challenging and expensive because there is no agreed upon scenario to use or guidance on how issuers should conduct these analyses. Additionally, the breadth of analysis required to estimate local impacts of climate change in a geographically dispersed operating environment is significant. These challenges to conducting scenario analyses could potentially limit comparability across issuers.

We encourage the CSA and other securities regulatory organizations to provide opportunities to assess and compare consistency of scenario analysis approaches across issuers in comparable sectors. The CSA could also consider publishing guidance documents to support issuers who choose to publicly report this disclosure.

Question #5. The TCFD recommendations contemplate disclosures of GHG emissions, where such information is material.

a. The Proposed Instrument contemplates issuers having the option to disclose GHG emissions or explain why they have not done so. Is this approach appropriate?

The approach specified by CSA is appropriate as long as the issuer provides a rationale on why the issuer has chosen to include or not include certain types of emissions in their disclosure. If the CSA is considering publishing guidance for issuers making this type of disclosure, we recommend the ISO 14064 standard, which has clear guidance on how issuers can determine if Scope 1 and certain Scope 2 and Scope 3 emissions are material risks.

b. As an alternative, the CSA is consulting on requiring issuers to disclose Scope 1 GHG emissions. Is this approach appropriate? Should disclosure of Scope 1 GHG emissions only be required where such information is material?

We are not supportive of this alternative as it undermines the ability to ensure that reported information is consistent and comparable. This alternative may also inadvertently create positive or negative reporting biases. As an example, Company A has material Scope 1 GHG emissions, whereas Company B has limited Scope 1 emissions, but material Scope 2 and/or Scope 3 emissions.

Scope 1 emissions should always be included in voluntary disclosures since they are completely under the control of the issuer. However, disclosure of Scope 1 has the potential to present the investor with an incomplete picture of the GHG impacts of an organization. The GHG Protocol and Environment and Climate Change Canada require both Scope 1 and Scope 2 emissions to be reported. In a scenario where disclosure is required, omitting Scope 2 emissions would not allow the investor a comprehensive understanding of the GHG risks related to the issuer as GHG impacts of electricity usage by the organization would be omitted. For example, the GHG impacts of electricity use could be significant, particularly in jurisdictions where coal is still being used to generate electricity.

A voluntary approach along with a company's assessment of materiality provides the investor with a more comprehensive picture of the issuer's GHG emission impact rather than only Scope 1.

c. Should disclosure of Scope 2 GHG emissions and Scope 3 GHG emissions be mandatory?

Disclosure of GHG emissions, be it Scope 1, Scope 2, Scope 3, or a combination, should be based on materiality. If the CSA does not adopt the voluntary disclosure approach, we support making disclosure of Scope 2 emissions, but not Scope 3 emissions, mandatory. Disclosure of Scope 3 emissions has the potential to present a confusing picture because Scope 3 emissions are more difficult for the issuer to influence and it may be double reported with disclosures reported by other issuers who have direct control over these GHG emission sources.

d. **For those issuers who are already required to report GHG emissions under existing federal or provincial legislation, would the requirement in the Proposed Instrument to include GHG emissions in the issuer's AIF or annual MD&A (if an issuer elects to disclose these emissions) present a timing challenge given the respective filing deadlines? If so, what is the best way to address this timing challenge?**

The requirements in the Proposed Instrument to include GHG emissions in the issuer's annual information form (AIF) or annual management discussion and analysis (MD&A) presents Hydro One and we expect, other issuers a timing challenge. We are currently able to publish our verified GHG emissions data within about six to eight months following our financial year end. This timeline allows us to accurately measure and report data that has gone through internal controls and well-established data validation procedures. We believe the best way to address the challenge of this timing gap is to allow issuers the flexibility in choosing the appropriate public document(s) in which to publish the proposed required climate-related disclosures.

Question #6. The Proposed Instrument contemplates that issuers that provide GHG disclosures would be required to use a GHG emissions reporting standard in measuring their GHG emissions, being the GHG protocol or a reporting standard comparable with the GHG Protocol. Further, where an issuer uses a reporting standard that is not the GHG Protocol, it would be required to disclose how the reporting standard used is comparable with the GHG Protocol.

a. **As issuers have the option of providing GHG disclosures, should a specific reporting standard, such as the GHG Protocol, be mandated when such disclosures are provided?**

We support the requirement to mandate a specific reporting standard and recommend the World Resources Institute GHG Protocol, considered the standard on GHG emissions reporting.

b. **Is the GHG Protocol appropriate for all reporting issuers? Should issuers be given the flexibility to use the alternative reporting standards that are comparable with the GHG Protocol?**

We believe the GHG Protocol in concert with the ISO 14064 guidance is appropriate for all reporting issuers. We do not recommend giving issuers flexibility in using alternative reporting standards. We support a universal standard of reporting of GHG emissions to ensure that disclosures are comparable and consistent across issuers.

c. **Are there other reporting standards that address the disclosure needs of users or the different circumstances of issuers across multiple industries and should they be specifically identified as suitable methodologies?**

The ISO 14064-1: 2018 standard addresses the disclosure needs of users. The standard specifies principles and requirements at the organizational level to quantify and report GHG emissions and removals.

Questions #7. The Proposed Instrument does not require the GHG emissions to be audited. Should there be a requirement for some form of assurance on GHG emissions reporting?

We support the requirement for an independent, third-party limited level of assurance of GHG emissions. Third party review (audit, assurance, or verification) provides an added layer of confidence that the GHG emission disclosures are reliable, consistent, and comparable.

Auditing of GHG data and climate-related disclosures requires a higher level of technical expertise and competence than the skill set possessed by most accountants and financial auditors. To close this gap, we encourage the CSA to consider the recommendations provided by the International Auditing and Assurance Standards Board and the World Business Council for Sustainable Development related to the Extended External Reporting (EER) published in March 2021 or similar accreditations for verifying GHG emissions data in accordance with ISO 14065. The EER details the technical competencies required for accepting an assurance engagement on climate disclosures and other ESG information.

Question #8. The Proposed Instrument permits an issuer to incorporate GHG disclosure by reference to another document. Is this appropriate? Should this be expanded to include other disclosure requirements of the Proposed Instrument?

We support issuers having the option to incorporate the proposed disclosure by reference as some issuers may find the disclosures are a more natural fit within a different document. For example, risk factors are permitted to be incorporated by reference in an AIF from the MD&A, and issuers might find that some of the proposed risk-related disclosure might be a natural fit with the risk factor disclosure in an issuer's MD&A. It seems reasonable and effective to provide issuers with the option to incorporate by reference and include the proposed disclosure in other documents.

Question #11. What are the anticipated costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument?

The costs and challenges associated with providing the disclosures contemplated by the Proposed Instrument should not be onerous for most issuers who already report their GHG emissions if Scope 3 emissions disclosure is not mandatory.

If the CSA requires issuers to disclose Scope 3 emissions, we believe this process would be labour intensive and expensive for many organizations, including Hydro One. We believe that the labour and financial commitment needed to disclose Scope 3 emissions would be better spent on adapting to climate change and mitigating GHG emission impacts that are under the direct control of organizations.

Question #12. Do the costs and challenges vary among the four core TCFD recommendations related to governance, strategy, risk management and metrics and targets? For example, are some of the disclosures more (or less) challenging to prepare?

We can confirm from our experience with aligning to the TCFD recommendations that the costs and challenges of reporting disclosures vary and have their distinct challenges. TCFD recommendations in areas that are well-established and outlined in industry, such as governance, are easier for issuers to disclose. Other core TCFD recommendations, have no established metrics and therefore are more challenging and costly to prepare.

Question #15. Does the guidance set out in the Proposed Policy sufficiently explain the interaction of the risk disclosure requirement in the Proposed Instrument within the existing risk disclosure requirements in N1 51-102?

The guidance in the proposed policy seem to sufficiently explain the interaction of the risk disclosure requirement in the Proposed Instrument within the existing risk disclosure requirements in N1 51-102.

Question #17. The Proposed Instrument contemplates a phased-in transition of the disclosure requirements, with non-venture issuers subject to a one-year transition phase and venture issuers subject to a three-year transition phase. Assuming the Proposed Instrument comes into force December 31, 2022, and the issuer has a December 31 year-end, these disclosures would be included in annual filings due in 2024 and 2026 for non-venture issuers and venture issuers, respectively.

a. **Would the transition provisions in the Proposed Instrument provide reporting issuers with sufficient time to review the Proposed Instrument and prepare and file the required disclosures?**

   We believe the transition provision allows us sufficient time to review the Proposed Instrument and prepare and file the required disclosures. However, from our perspective, additional time would be beneficial in ensuring that the required information can be properly produced, analyzed, and reported, free of any misstatement. Given the rapidly evolving ESG landscape, additional time would also allow us to see how global reporting structures develop.

Question #18. In its comment letter to the IFRS Foundation's consultation paper published in September 2020, the CSA stated that developing a global set of sustainability reporting standards for climate-related information is an appropriate starting point, with broader environmental factors and other sustainability topics to be considered in the future. What broader sustainability or ESG topics should be prioritized for the future?

We agree with the CSA that developing a global set of sustainability reporting standards for climate-related information is only the starting point. The past two years have reinforced the importance of environment, social and governance issues to organizations and society. We have a responsibility to foster an equitable and inclusive society and we believe that the CSA should prioritize additional ESG topics in the future.

Conclusion

Thank you for the opportunity to provide comments and contribute to the CSA's work in moving toward consistent and comparable climate-related disclosures. Hydro One is supportive of transparent and comparable ESG reporting standards and we look forward to continuing our engagement with CSA on this work. If you have any questions or would like further details or clarification about any of our comments, please reach out to us.

Sincerely,

"Jason Fitzsimmons"

Jason Fitzsimmons
Chief Corporate Affairs and Customer Care Officer