Initial reaction of the electric industry on the Working Papers of EFRAG's Project Task Force on European Sustainability Reporting Standards (PTF-ESRS)

Eurelectric position paper

April 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

WG Financial Regulation & Market Integrity
WG Social Sustainability

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In a letter dated 12 May 2021, the European Commission tasked the European Financial Reporting Advisory Group (EFRAG) to develop the EU sustainability reporting standards on the basis of the proposal for a Corporate Sustainability Reporting Directive (CSRD – article 19b) presented in April 2021 by the European Commission. This directive will replace the Non-Financial Reporting Directive (NFRD) from 2023 onward and aims to direct investments towards a more sustainable economy. This work is carried out taking into account the recommendations of the Task-force of EFRAG mandated by the European Commission on 25 June 2020 to undertake preparatory work for the elaboration of non-financial reporting standards (final report published in February 2021[1]). This is in line with the European Council's advice, which calls the Commission to consider the development a European non-financial reporting standard in December 2019. Since 20 January 2022, the EFRAG has published several batches of draft working papers. The EFRAG should submit the first set of draft standards to the European Commission by the 15th of June 2022 and by end-2022 will expect the adoption of the first standards.

The European electric industry would like to make some comments on these draft working papers, even though they are not open public consultation. Firstly, because EFRAG's work is advisory the Commission is not bounded to adopt recommendations made. Secondly, because the electric industry will be highly impacted by the new sustainability reporting rules, we believe that we have valuable inputs to share.

In November, Eurelectric released a position paper summarizing its main positions on this file. We would like to confirm the main messages of this document. Overall, the EU electric industry would like to express again our support to the development of EU Sustainability Reporting standards. We believe that this will contribute to the development of a level-playing field in terms of sustainability reporting requirements and that it will help for better channelling of financial resources to companies with sustainable business models and activities. In this perspective, we would like to thank the EFRAG for the impressive quantity and quality of work that has been done. We sincerely appreciate the clarification of requested disclosures by providing guidelines and definitions.

However, we also would like to reiterate our call for pragmatism and realism: it is of utmost importance that the new reporting requirements do not lead to disproportionate obligations for companies. In this regard, the amount of requested information in the EFRAG working papers seems very detailed, granular and exhaustive. This could lead to an extensive level of administrative burden for reporting companies. It would be meaningful to reconsider if all requested information is of added value for readers (e.g. a list of "non-material topics"; many details about roles, experiences, and responsibilities; resources to address action plans; long-term timeframes to be reported on, etc.). Moreover, much of the requested information is already included in the annual report (references would minimize reporting efforts in that case). The companies need to be supported in their disclosure work under EU sustainability standards to avoid repetitions and

[1] Proposals for a relevant and dynamic eu sustainability reporting standard setting (europa.eu)

improve their information-processing efficiency. Therefore, the European electric industry would like to call for additional proportionality and prioritization in the elaboration of these new requirements (e.g. for instance, we believe that paragraph 17 of the draft ESRS1 on General Provisions about reporting on implementation goes beyond what should be defined by these standards).

In particular, The EFRAG standards structure propose a reporting of risk/opportunities/impacts, policies, targets on those impacts, action plans, disclosures and finally, performance reporting. This approach is not consistent with the one that Accounting standards take, which are fundamentally focused on past performance and objective metrics. We are concerned about reporting scenarios, and about the obligation to set numerous long term non financial targets. Therefore, we consider that the approach to scenarios, and long term targets should be voluntary, with the obligation restricted just to those areas of paramount materiality, i.e., when the entire business model of the company depends on a particular factor or when the impact is of great significance.

Additionally, the reporting obligation should be re-adjusted to corporate level. With regard to business strategy and materiality, the previous exemption of subsidiary companies should be maintained as it would strengthen sustainability aspects throughout company groups, ensuring comparability between companies and avoid additional reporting burdens with no added value for data users. In the energy sector even smaller companies often have several legal entities due to regulatory reasons, e.g. each wind park has to be a legal entity. Hence, to provide date just for such entity/subsidiary would not make sense.

Last but not least, the EU electric industry would like to remind that it is crucial to consider alignment and consistency with existing global standards largely used by companies, in order to ensure international convergence. Otherwise, managing the sustainability report might be a too-heavy burden for a company which is under the standards because it is subject to both the International Financial Reporting Standards (IFRS)[2] and the CSRD. Navigating between the two standards of two diverging frameworks would not be an easy task for European firms. To ensure maximum compatibility, we believe that additional or more granular requirements should be limited as much as possible. In this perspective, we welcome the fact that EFRAG has already started to assess the compatibility of its work with ongoing work of the International Sustainability Standards Board and we would like to encourage them to continue this work. We believe that any substantial incompatibility should be duly considered and justified.

[2] Since 2002, companies in the European Union that go public have been obliged to present their financial reports using IFRS.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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