



UNLOCKING THE VALUE OF SASB STANDARDS

NRG Energy Inc. is an integrated power company with primary locations in Princeton, New Jersey, and Houston, Texas. NRG owns and operates a diversified power generation portfolio with approximately 26,000 MW of generation capacity before non-controlling interest and provides power for nearly 3 million retail and business customers in 11 states. In 2017, the company generated more than \$10 billion of revenue. NRG is listed in the U.S. on the New York Stock Exchange (NYSE) and is a component company of the S&P 500.



Economics and corporate behavior have dramatically changed the energy landscape in recent years. Today, in the minds of investors and consumers, sustainability should be embedded within an energy company's strategy. NRG takes that expectation seriously and strives to create a sustainable energy future by safely powering the American economy with reliable, cleaner, and more affordable electricity. As Mauricio Gutierrez, the company's President and CEO, has said, "Sustainability is a philosophy that is fully integrated into all parts of an organization. It is the glue that brings all stakeholders together—working toward a common goal with purpose."

Indeed, sustainability has become core to NRG's business, starting at the highest level with oversight by its Board of Directors' Governance and Nominating Committee. Such buy-in among board members and top executives sets the tone at the top for NRG's sustainable business strategy, which seeks to tie the company's financial performance to its decarbonization efforts. This focus has helped NRG make significant progress on key objectives, such as reducing the carbon-intensity of its revenue by 22 percent since 2014.

"FOR STAKEHOLDERS ENGAGED IN LONG-TERM DECISION MAKING, SUCH AS INVESTORS, THE SASB STANDARDS ARE AN EFFICIENT TOOL FOR COMMUNICATING KEY INFORMATION IN A STREAMLINED MANNER."

BRUNO SARDA

VP OF SUSTAINABILITY / NRG

WHY SASB?

NRG's sustainable business strategy also focuses on taking an industry-leading role in transparency and disclosure, which helped the company move forward more effectively and efficiently on its path toward implementing the SASB standards in 2016. The company viewed the standards as an opportunity to enhance its sustainability reporting to stakeholders—especially to investors—and to take its commitment to sustainability to the next level. "We were getting more questions from institutional investors, especially European-based, on what we're doing in the ESG space and how we might report those metrics more regularly," said Director of Sustainability Laurel Peacock.

In response, NRG has incorporated SASB-aligned disclosures into its sustainability reporting each of the last two years. “We’ve received very positive feedback on it,” Peacock said. “We had robust public disclosure out there, but SASB helped us translate our sustainability disclosures into language that’s relevant and actionable for our investor audience.”

Today, NRG’s sustainability reporting illustrates the complementary nature of key reporting frameworks and sustainability initiatives. The company integrates investor-focused disclosure, such as the SASB standards, with reporting geared toward a broader set of stakeholders, such as GRI standards and CDP disclosures.

For example, NRG incorporated a full table of SASB metrics into the appendix of its 2017 sustainability report, which is otherwise guided by the GRI standards at the “Core” level, as well as the GRI Electric Utilities Sector Supplement. The report also reflects how NRG has begun to align its business activities with key Sustainable Development Goals established by the United Nations, including those focused on climate action and affordable, clean energy. Meanwhile, NRG also provides environmental data to CDP’s Climate Change and Water programs, and is proactively engaging with key stakeholders as it develops internal guidelines on integrating the recommendations of the Task Force on Climate-Related Financial Disclosures, which are also complementary.

“SASB HELPED US FOCUS MORE SPECIFICALLY ON INVESTORS AS A KEY STAKEHOLDER AUDIENCE FOR OUR SUSTAINABILITY DISCLOSURES.”

LAUREL PEACOCK
DIRECTOR OF SUSTAINABILITY / NRG

CHALLENGES AND SOLUTIONS

Because NRG was the first in its industry to use SASB, and because the SASB standards were provisional at the time, the company took a deliberative approach to implementation. First, it performed an analysis to identify gaps between its existing reporting practices and the SASB standards, which helped determine the level of time and effort required. For many SASB metrics—approximately 80 percent, according to Peacock—NRG found it was already collecting much of the information and, in many cases, reporting it publicly either in its SEC filings or in accordance with other voluntary frameworks. For a handful of metrics, it had to establish new processes and timelines.

For example, NRG faced certain measurement and timing challenges in making some air quality disclosures. First, state requirements vary with regard to reporting particulate matter (PM10) emissions in annual emissions inventories or emissions statements. Further, the earliest reporting deadline for a reporting year is April 1 of the following year, which is late in the sustainability reporting cycle and past the deadline for financial filings. NRG looked for a workaround. “We did it manually the first year,” explained Peacock. NRG’s environmental manager contacted each of about 100 different plants, going through their logs to find the data and add it together, which was time-consuming additional work.

After that experience, NRG decided “that’s not what we’re looking for in terms of efficiency,” said Peacock. Thus, for the sites in NRG’s fleet that had not yet or were not required to report PM10 emissions at the time of reporting, NRG used tools and representative values from the U.S. Environmental Protection Agency to estimate its emissions. The lesson for other companies, Peacock said, is to take a close—and early—look

at how the SASB metrics for their industry align with existing compliance or regulatory timelines and adapt accordingly. “It’s an example of how complicated the process can be in industries like ours,” she said. “But you find a solution.”

JOINT EFFORT

For NRG, the existence of mutually respectful relationships between departments was a critical factor in keeping such challenges to a minimum. The implementation process and reporting cycle involved significant collaboration across a variety of internal business groups, including corporate sustainability, environmental compliance, investor relations (IR), general counsel, chief of staff, CEO, communications, marketing, and business operations. “The most important thing is developing relationships,” said Peacock. “You can’t do the job without that.” Because NRG already had years of sustainability reporting experience under its belt before implementing the SASB standards, the subject-matter experts for each sustainability topic had already been identified and strong working relationships had already been established, making the process go more smoothly.

NRG also engaged with trusted external advisers for legal counsel and independent, third-party assurance over key data related to greenhouse gas emissions and water management. (KPMG provided assurance for these metrics in accordance with AICPA standards.) This, too, presented certain challenges. For example, verifying water data can be extremely difficult because of complexities unique to each power plant. Again, NRG looked for a fix. “We worked with a third party and the plants on improving the process for collecting certain data,” Peacock said, and ultimately through a series of conversations, “we came up with a more time-efficient, cost-effective way to do it.”

Interdepartmental conversations like this one not only helped identify process improvements at NRG, they also fostered greater employee engagement. As Peacock noted, tracking efficiency measures is normally little more than a routine “compliance exercise” for NRG’s staff. Thus, “it was fascinating and valuable for them to hear investors care about this.” With this perspective, workers can “make their own mini-business case” for how their day-to-day work contributes to NRG’s broader sustainable business strategy.

LESSONS LEARNED

NRG’s experience offers several important takeaways for other companies considering the implementation of SASB standards:

- **Start early.** Timing can be a challenge with certain metrics, either in calculating and compiling the data or in having it verified by a third party—so the earlier you get started, the better. Also, many process improvements are iterative, so the sooner you learn what isn’t working, the sooner you can fix it. “Start early, get creative, and be transparent,” Peacock said.
- **Know who your audience is.** An organization should try to achieve clarity and consensus early on about what it hopes to accomplish with implementation. Is it for internal or external reporting or both? Is it for investors or a broader set of stakeholders? “It’s really important to use complementary frameworks to achieve specific reporting objectives,” Peacock said.

- **Collaboration is key.** NRG brought together a variety of internal business functions and external providers to ensure it was able to collect certain data earlier in the reporting cycle than it had previously done, as well as to make necessary changes to its third-party verification process. Existing relationships across departments helped smooth this transition. “Alert and build rapport with key internal stakeholder groups ahead of time—if you’re not already engaged with these parties, it could be more difficult,” Peacock said. “But if your sustainability reporting is more mature and you have existing relationships with IR, legal, finance, etc., they need to be your trusted advisors. Or they need to take the lead and let you be their trusted advisor.”
- **Speak the same language.** The traditional divide between sustainability and finance (or operations, legal, etc.) can create a potentially crippling language barrier. To get the most out of SASB standards, sustainability professionals should look to bridge the gap. “With SASB, it’s in the language of finance,” Peacock said. “It has been great for breaking down traditional silos within the organization.” For example, although NRG’s sustainability and IR teams already had a good working relationship, it has only strengthened with the increased focus on investors. Of IR, Peacock said, “SASB has been an avenue to enhance that dialogue with them.”
- **Engage with SASB.** NRG recommends engaging in regular, two-way dialogue with the appropriate SASB sector analyst throughout the implementation process. First, such discussion can help a company better understand the standards, metrics, and technical protocols, as well as how each of these components applies to its specific circumstances—especially when operations span multiple industries. Second, this engagement provides invaluable input—practical and often highly technical feedback from the “front lines”—to help SASB as it seeks to improve the quality of the standards over time. “It was a good back and forth. ... It was a partnership, really,” Peacock said of consultation with SASB. Additional guidance is also available through SASB’s tools, materials, and resources, including the online Navigator.
- **Remember, you’re not alone.** NRG also recommends talking to other companies that have already gone through the process. For example, NRG joined the SASB Alliance, which provides unique opportunities to engage with other firms to explore best practices in building capacity, integrating material sustainability information into existing processes, and reporting. Because NRG was a first-mover in implementing the SASB standards, “I get a lot of questions and speak a lot to sustainability practitioner peers,” Peacock said. “New things can be scary—it’s just our nature,” and “reporting fatigue is real”, she said, but noted that “many of our peers already have excellent sustainability reports, so for them it potentially wouldn’t be a big lift.”

Through its robust sustainability reporting practices, NRG promotes transparency in the power sector, which it hopes will contribute to the generation of comparable and consistent data to support improved decision-making by companies and their investors. As Peacock points out, high-quality business intelligence is especially critical in an industry with systemic importance. “NRG’s CEO, Mauricio Gutierrez, often refers to electricity as the lifeblood of our modern economy,” she said. “In that spirit, the decisions we make are really important not only to shareholders but to our customers and partners and communities.”