



June 14, 2021

RE: Public Input on Climate Change Disclosures

Dear Chair Gensler & Commissioners Lee, Peirce, Roisman, and Crenshaw:

Sierra Club is pleased to offer comments in response to the Securities and Exchange Commission's (SEC's) request for public input on climate-related financial disclosure issued by Acting Chair Allison Herren Lee on March 15, 2021.<sup>1</sup> We appreciate the opportunity to offer feedback and are pleased to support the Commission's initiative in examining and addressing this time-critical issue.

Sierra Club is the largest nonprofit grassroots environmental organization in the United States, with 64 chapters and over 3.8 million members and supporters. Sierra Club is dedicated to practicing and promoting the responsible use of the earth's ecosystems and resources; to educating and enlisting humanity to protect and restore the quality of the natural and human environment; and to using all lawful means to carry out these objectives. In keeping with our mission, Sierra Club seeks to hold accountable businesses with harmful environmental practices and human rights violations, advances legislation and regulations that seek to internalize the costs of environmental damage, and pursues legal remedies against corporations that harm the environmental and social fabric. Sierra Club regularly practices before both federal and state agencies and regulators in environmental, utility, and economic matters.

Since its inception, the Commission has overseen a public company reporting disclosure system that balances the interests of investors and public companies, with recognition of "the special interest and rights of investors..."<sup>2</sup> The resulting disclosure system has become a national treasure emulated by jurisdictions around the world. That inaugural Commission established its expectations that public company reporting to investors would be subject to rigorous standards, oversight, and enforcement. We urge the Commission to recognize that it must do so once more — in the areas of climate change and sustainability information.

It's been nearly six years since the Paris Agreement was first adopted, a moment that should have marked meaningful climate action by both governments and businesses alike. Since then, corporations have funneled trillions of dollars into fossil fuels and other extractive industries that put not only our climate at undue risk but also the stability of our financial system. In the last five years alone, climate-intensified disasters have done over \$600 billion in damage — a clear demonstration of the growing economic fallout of climate change.<sup>3</sup> From rising seas and heat waves to increasingly destructive wildfires, storms, and floods, these impacts have left both

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<sup>1</sup> <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

<sup>2</sup> Financial Statements for Investors - Address of William Werntz, SEC Chief Accountant before Ohio Society of CPAs, Sept. 7, 1939.

<sup>3</sup> NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2021). <https://www.ncdc.noaa.gov/billions/>, DOI: 10.25921/stkw-7w73

companies and their investors at increasing and often hidden risk. A global upsurge in climate and shareholder activism has pushed many companies to move toward a more sustainable, decarbonized economy and promulgated new regulatory standards to reduce climate pollution. Instead of joining them in taking meaningful action against climate change, too many corporations are simply greenwashing their investments — making false or misleading claims about the sustainability of their businesses, failing to reveal the risks climate change poses to their financial health and that of our planet, and misleading investors into believing they are making responsible choices by supporting them.

The SEC bears a responsibility to protect investors against misleading and deceptive claims, to ensure that capital is allocated efficiently, to protect against systemic risk to financial markets, and to protect the public interest. Climate change poses a systemic risk to financial markets over the next years and decades, but deceptive corporate practices and a lack of transparency poses a risk to investors, capital markets, and the public interest today. Today's climate-related disclosures are non-standardized, not enforced, and suffer from deep inconsistencies both between reporting entities, and often within reporting entities themselves.

Across fossil-intensive industries and the market participants that either rely on those industries or support them financially, climate-related commitments and statements have become commonplace, and have become prominent in investor-facing materials and to investors. The time to ensure that these materials are meaningful and correct is ripe. While the SEC cannot single-handedly correct the course of corporations that are responsible for damage to the climate, it can ensure that investors have the right tools to move capital efficiently in accordance with their own climate intentions and risk tolerances.

To help identify and address the risks that climate change poses to our communities, ecosystems, and the stability of our financial system, the Sierra Club calls on the SEC to address increasing investor demand for consistent, comparable, and reliable disclosure of climate-related risks and sustainability information by requiring substantial improvements in climate-related disclosures. Sierra Club asks that the SEC:

- a. Require that companies report, in a standardized accounting framework, their Scope 1, 2, and 3 emissions;
- b. Require that companies that promulgate climate commitments report those commitments in annual reporting, and report any changes to those commitments;
- c. Require that companies that promulgate climate commitments report on business decisions that are, or could reasonably be perceived as contrary to the commitment;
- d. Require that companies that promulgate climate commitments report core assumptions inherent to their business operations, consistent with their commitment including assumptions about fossil demand, carbon regulations or prices, and asset life;
- e. Require that auditors are held accountable for verifying that business decisions and core assumptions are consistent with corporate climate commitments.

This is the bare minimum that market participants need to inform their financial decision making and adjust their investments to a rapidly warming climate, increased regulatory pressures, and ultimately a decarbonized economy. Sierra Club recognizes that there are detailed questions regarding the standardization of reporting, and industry-specific questions that we do not address in these comments. Our lack of input on a specific question, issue, or industry does not indicate that we believe current practice is acceptable. We look forward to the opportunity to engage with the SEC in future and ongoing rulemaking and regulatory processes.

### **Historical Context**

For over 87 years, the Commission has fostered investor confidence by providing investors with important information through steadfastly overseeing its Full Disclosure System.<sup>4</sup> This System includes prescribing the nature, timing, and extent of disclosure that should be provided to investors by public companies.

The inaugural Commission embarked on disclosure regulations requiring publicly-owned companies to disclose certain types of business and financial data on a regular basis to the SEC and to the company's investors. The SEC called for “financial data” and “information of a non-financial nature bearing upon the security being registered and absolutely essential to any determination of its investment merit.”<sup>5</sup> Today, the system involves reviews by the Division of Corporation Finance and a centralized database that can be accessed by investors and investor representatives from anywhere at any time.

Historically, the Commission has expertly navigated the chasm of investor demands and public company preparers by promulgating rules concerning the pace and scale of corporate reporting. And, largely, the U.S. capital markets have been well-served by the resiliency of the corporate reporting system and by the SEC’s oversight. When threats to the sufficiency and integrity of the reporting regime have emerged, the Commission has acted, specifying the form and content of reports (Regulations S-X and S-K), the timeliness of financial reporting (advancing from annual reporting to include quarterly and other interim reporting) and the dissemination of reports.

In the 1970s, when investors raised questions about the quality and quantity of certain disclosures made by bank holding companies, the Commission immediately acted by “seeking disclosures which...would be considered important by investors.” The focus of the disclosure rules was to “provide information to help differentiate among banks as to the sources of income and exposure to risks.”<sup>6</sup> The Commission promulgated Guides 61 and 3 for statistical disclosure by bank holding companies.<sup>7</sup> The SEC staff noted that the new disclosures were “mindful of the investor’s need to assess uncertainties... and the need for substantial and specific disclosure of changes in risk characteristics of loan portfolios.”<sup>8</sup>

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<sup>4</sup> <https://www.sec.gov/pdf/annrepo1/aro1fulldisc.pdf>

<sup>5</sup> Interpretations of rules and regulations of the Securities and Exchange Commission by Dr. James M. Landis, member, at a meeting of the New York State Society of Certified Public Accountants held at the Waldorf Astoria on January 14th, 1935. (Form 10 and Form A-2)

<sup>6</sup> Statement of the Honorable Ray Garrett, Jr., Chairman, Securities And Exchange Commission, before the Senate Committee on Banking, Housing And Urban Affairs, on the matter of disclosure by banks and bank holding companies in connection with the public distribution of their securities, July 16, 1975.

<sup>7</sup> 57 FR 36442.

<sup>8</sup> Guide 3 Release at 39008.

In another example, when investors expressed a fear that January 1, 2000 would be interpreted by computers as January 1, 1900 (Y2K), the Commission acted quickly and proactively. Beginning in 1998, the Commission required public companies and firms to update their systems and provide disclosures of the risks and uncertainties.<sup>9</sup>

The Commission has also protected the integrity of the Full Disclosure System when in 2000 the SEC eliminated the practice of "selective disclosure," in which business leaders provided earnings estimates and other vital information to analysts and large institutional shareholders before informing smaller investors and the rest of the general public.

### **Climate Impacts and Risks**

Our point in reviewing some of the SEC's important work at establishing, maintaining, and protecting a Full Disclosure System is that continued relevance and reliability of the disclosure system, and the concomitant confidence of investors, cannot continue without addressing investors' need for disclosure of climate-related risks and sustainability information.

The failure to incorporate such disclosure requirements into its Full Disclosure System to address climate-related risks and sustainability presents a clear and present danger to U.S. capital market competitiveness and our long-term financial stability. Further, the lack of clearly defined rules increases the costs on both U.S. investors (seeking the information) and U.S. public companies. In the 1970s, the Commission acted to ensure that disclosures about the risk and uncertainties inherent in bank holding companies were standardized, comparable, and reliable. The Commission must, once again, mandate disclosure that investors and the public can use to understand how companies are impacting the climate and are susceptible to climate-related risks.

Mandatory disclosure of climate impacts and risks is the only way to ensure that investors can understand how climate change affects the short- and long-term financial health of American companies.<sup>10</sup> Without this critical information, investors cannot react accordingly to known impacts and risks in order to efficiently allocate capital and exercise their right at corporate governance.

#### **1) The SEC should require that all U.S. companies disclose Scope 1, 2 and 3 greenhouse gas emissions.**

The SEC should require issuers to report on their total greenhouse gas emissions (Scopes 1, 2, and 3, as defined by the Greenhouse Gas Protocol<sup>11</sup>). Importantly, Scope 3 emissions must also include greenhouse gas emissions resulting from real economy activities that issuers finance or underwrite.

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<sup>9</sup> Securities Act Rel. No. 33-7558, Jul. 29, 1998

<sup>10</sup> Commissioner Allison Herren Lee, "The voluntary disclosure that companies have increasingly provided in recent years is still largely regarded as insufficient. It's not standardized, it's not consistent, it's not comparable, and it's not reliable. Voluntary disclosure is not getting the job done. And without better disclosure of climate risks, it's not just investors who stand to lose, but the entire economy."

<sup>11</sup> GHG Protocol Corporate Accounting and Reporting Standard. [Available online.](#)

Firms should also provide a qualitative discussion of risk management and a firm's business model and strategy under various climate-related scenarios, including a 1.5 degree warming scenario consistent with science-based emissions targets and multiple other global warming scenarios, as well as the extent to which the firm's decarbonization goals and climate strategy depend on the availability of carbon offsets.

Climate change poses a systemic risk to the economy, and therefore has material impacts on companies of all sizes in all industries. Climate change risks drive economic instability: they can combine in unexpected ways, with serious, disruptive impacts on asset valuations and global financial markets.

The impacts of climate change include physical risks to real assets from climate-fueled weather events, as well as transition risks posed by regulatory, technology, economic and litigation changes during the shift to a net-zero economy. These risks are happening now and will only grow in the future, especially if urgent action is not taken in the public and private sectors to slash emissions and prepare the economy for the impacts of a warming world.

While all companies are not equally exposed to climate-related risks, a company's actions may still have outward impacts on people and the planet that contribute to the systemic risks of climate change, which in turn, exposes all actors in the economy to the long-term systemic risks of climate change. Therefore, all companies across all industries should be subject to transparent disclosure on how they have impact on and are impacted by climate change.

Disclosure of Scope 1, 2 and 3 greenhouse gas emissions are needed to assess the full range of climate change risks facing companies. This must include emissions attributable to the lending, investing, and underwriting activities of financial institutions, often referred to as "financed emissions", which contribute substantially to the systemic risk of climate change faced by the financial sector.<sup>12</sup>

**2) The SEC should require that corporations disclose public climate commitments, if any, and disclose how their business plans align with those public climate commitments.**

In the last decade, numerous investors and the general public have begun to demand that corporations provide clear commitments for how they will reach, or help reach climate targets. In particular, the last three years have seen a proliferation of climate commitments from corporate entities of all stripes, including traditionally high GHG emissions entities such as electric utilities,<sup>13</sup> coal and gas generators,<sup>14</sup> gas distribution utilities,<sup>15</sup> oil majors,<sup>16</sup>

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<sup>12</sup> Alexandra Thornton and Andry Green, Center for American Progress, February 2021, [The SEC's Time To Act](#).

<sup>13</sup> Example: Duke Energy 2021, Net-Zero Carbon Emissions by 2050. [Available online](#).

<sup>14</sup> Example: NRG 2019. [Available online](#).

<sup>15</sup> Example: Sempra 2021. [Available online](#).

<sup>16</sup> Example: Chevron 2020, Page 12, "We support the Paris Agreement and its goal of "holding the increase in the global average temperature to well below 2° C above pre-industrial levels ...[which] implies reaching global net zero in the second half of this century." [Available online](#).

petrochemical transporters,<sup>17</sup> and smelters,<sup>18</sup> as well as the entities that finance those institutions,<sup>19</sup> large energy buyers,<sup>20</sup> and downstream energy users.<sup>21</sup> While it is encouraging that corporations responsible for the climate crisis recognize the importance of providing a public position on their goals, targets, and intentions, it is unfortunately the case that the targets are often vacuous, or even disingenuous.<sup>22</sup> Corporations vary widely on what scope of emissions fall under their commitments, including the exclusion of fossil fuels produced and delivered by the very institutions whose bottom line depends on the production and delivery of those fuels.

These corporate commitments are not simply broad public deflections; the very institutions that make these commitments consider them worthy of inclusion—and often at a top-line—in investor-facing materials.<sup>23</sup> These statements and reports are designed to inform investor decision making: in buy/sell/hold positions, as well as in board elections and shareholder direction. While it may not be clear how often the general investor community relies on those corporate pronouncements, the companies themselves clearly assess that these commitments are meaningful and material to their investor communities.

**a) Due to vagaries of reporting and lack of standardization, it is difficult, if not impossible, to assess if climate commitments are aligned with scientific or regulatory climate goals**

For many companies, particularly those that are exposed to transition risk, climate commitments should be meaningful for business operations. Indeed, a corporate commitment should indicate the corporation's intent to either make certain investment decisions, preclude certain business activities, or signal changes in operations that either allow the company to transition successfully, or at least position it to do so. And yet the actual structure of climate commitments are so poorly defined, and so poorly incorporated into financial assessments that they risk being meaningless.

It is unacceptable that corporate pronouncements of intent are considered of topline importance to present to investors, and yet are so unencumbered by standards and enforcement that without substantial investigation, it may be impossible to understand the basis of the commitment, or if the climate commitments are aligned with scientific or regulatory climate goals. And yet vague climate commitments, cast and promoted by corporations as articulations of their business strategies for meeting transition risk and investor expectations, are the norm.

Occidental Petroleum, a major producer of oil and gas in the US, states on its website that “we have set a target to reach net-zero emissions associated with our operations before 2040 and an ambition to achieve net-zero emissions associated with the use of our products by 2050.”<sup>24</sup> The

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<sup>17</sup> Example: Williams Companies. Accessed 2021. [Available online.](#)

<sup>18</sup> Example: Alcoa 2020. [Available online.](#)

<sup>19</sup> Example: Vanguard, 2021. [Available online.](#) See also JP Morgan Chase, 2021. [Available online.](#)

<sup>20</sup> Example: Target 2021. [Available online.](#)

<sup>21</sup> Example: Ford Motors, 2020. [Available online.](#)

<sup>22</sup> Sierra Club. January 2021. The Dirty Truth About Utility Climate Pledges. [Available online.](#)

<sup>23</sup> For example, Occidental Petroleum identifies its climate goals and targets on the second page of its 2021 Proxy Statement, following only a balance sheet and investor relations discussion. [Available online.](#)

<sup>24</sup> <https://www.oxy.com/OurBusinesses/CarbonManagement/Pages/default.aspx>

same statement appears prominently in the company's most recent proxy statement.<sup>25</sup> This statement reads as a clear commitment that would normally be associated with aggressive capital management, the retirement of high emissions assets, and investment in low carbon operations. However, a more detailed review of the company's sustainability report indicates that much of its plan is oriented towards the company's reduction of energy used in the production of oil and gas, rather than activities that would steer away from the production of emitting fossil fuels.<sup>26</sup> Simultaneously, the company's 10-K states that efforts to reduce emissions would harm the company's business interests, specifying that "initiatives aimed at limiting climate change and reducing air pollution could adversely affect our business activities, operations and ability to access capital. Such initiatives could cause the market value of our securities to decrease, our cost of capital to increase and adversely affect our reputation."<sup>27</sup> Occidental's climate statements are not only vague, but inconsistent with the company's actions and business plans, which are clearly oriented towards the expansion of climate-impairing production.

In late 2019, Duke Energy announced a goal to hit a "net-zero" emissions target by 2050, and a reduction of emissions by 50% by 2030.<sup>28</sup> From the initial presentation of those targets through the present day, critics have noted that the targets are deeply misaligned with the company's investments. In 2020, energy system analysts noted that Duke "miss[es] the mark" and that "looking ahead to 2040, ...Duke Energy's generating fleets are all heading to emit roughly double the quantity of CO<sub>2</sub> emissions required to decarbonize by 2050."<sup>29</sup> In early 2021, an industry-wide scorecard rated Duke an "F," with the statement that Duke "will miss [its] own decarbonization targets unless they change their plans."<sup>30</sup> The report specifically noted that Duke's plans to retire coal were insufficient to meet its climate targets. And in fact, in early 2021, Duke Energy produced an integrated resource plan for their state utility regulators that indicated Duke would only meet a decarbonization trajectory consistent with their targets if they were able to promote a friendly legislative agenda, rather than a regulation-neutral commitment, as implied by their investor outreach. The company's business-as-usual plan resulted in no net carbon emissions reductions.

Corporate climate commitments are often ambiguous and ill-defined, and yet they are cast as meaningful for investors, and investors put stock in those commitments. After Duke Energy announced that it would invest nearly \$60 billion consistent with its decarbonization targets,<sup>31</sup> Duke experienced a slate of purchases. However, when it was revealed that reaching those targets was contingent on state legislation that would allow the company to block competitive clean energy providers, Duke's stock moved quickly downward. Duke's failure to disclose that its climate commitments did not preclude new long-term gas investments misled climate-focused investors. The company's failure to disclose that meeting its climate commitment was

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<sup>25</sup> <https://www.oxy.com/investors/Reports/Documents/2021%20Proxy%20Statement.pdf>

<sup>26</sup> <https://www.oxy.com/Sustainability/overview/Documents/ClimateReport2020.pdf>

<sup>27</sup> Occidental SEC Form 10-K for FY 2020, page 11

<https://www.sec.gov/ix?doc=/Archives/edgar/data/797468/000079746821000009/oxy-20201231.htm>

<sup>28</sup> Duke Energy. September 2019. Duke Energy aims to achieve net-zero carbon emissions by 2050. [Available online.](#)

<sup>29</sup> <https://www.synapse-energy.com/sites/default/files/Investing-in-Failure-20-005.pdf>

<sup>30</sup> Sierra Club. January 2021. The Dirty Truth About Utility Climate Pledges. [Available online.](#)

<sup>31</sup> Duke Energy. February 11, 2021. [Available online.](#)

contingent on receiving favorable legislation put investors at risk. These types of clear misleading and risk are both material and not in the public interest.

The SEC must play a role in ensuring that corporations that make climate commitment representations to their investors or the public are held accountable to those commitments by both disclosing those commitments in standardized reporting, and clearly articulating the nature of the commitment and the risks that the commitment cannot be met by the corporate entity.

*We encourage the SEC to ensure that companies that make public climate commitments clearly describe the nature of those commitments in their standardized disclosures, including the timing of the commitments, and how the commitments are expected to impact operational and capital decisions, if at all. For entities that commit to reductions in emissions intensity, the disclosure must articulate the unit of measure against which the intensity is measured (i.e. units of production, gross or net revenue, capital, etc...).*

**b) Corporate business decisions and assumptions are often not aligned with stated corporate commitments, or render their commitment meaningless**

The vagaries of corporate climate commitments are not the only barrier to meaningful information flow to investors and market participants. It is critical that corporate business decisions and disclosure assumptions be aligned with publicly announced commitments. Inconsistency between commitments and business decisions or assumptions is a misrepresentation of corporate intent, and inappropriately allocates risk to shareholders. In particular, as investors seek to insulate themselves from transition risk with proactive companies, they should not be faced with companies that are either more exposed than claimed, or continue to contribute to the climate crisis.

One ongoing form of substantial inconsistency between corporate commitment and business decisions occurs within the electric utility sector, where fossil intensive electric utilities may make apparently clear corporate climate commitments, but propose resource plans before regulatory commissions that maintain or replace emitting resources and fail to produce requisite investment in non-emitting resources.

In mid-2020, Southern Company, the third largest electric utility in the nation, put forward a “net zero” emissions pledge,<sup>32</sup> promising to meet a 50 percent reduction in carbon emissions “well in advance of 2030,” and “net zero emissions by 2050.”<sup>33</sup> And yet this commitment from Southern Company fell just eight months after the company’s Alabama subsidiary requested to construct and acquire nearly 2,000 megawatts of new gas combined cycle plants, many with “an expected useful life of 40 years,”<sup>34</sup> a timeline which would extend well beyond the company’s

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<sup>32</sup> Southern Company, May 27, 2020. Southern Company announces transition to net-zero carbon emissions goal. [Available online.](#)

<sup>33</sup> Southern Company. Accessed June 13, 2020. “Net Zero.” [Available online.](#)

<sup>34</sup> Duke Energy. Febru Alabama Power, September 6, 2019. Petition for a Certificate of Public Convenience and Necessity, before the Alabama Public Service Commission. Docket 32953. [Petition available online.](#)



carbon commitment. And while Southern Company sought to create a narrative that the gas plants would allow it to reduce operations from coal plants in its system, it failed to disclose that these plants would result in CO<sub>2</sub> equivalent emissions (including methane leakage) rivaling or above those of many of its coal plants that could otherwise be displaced. More significantly, Alabama Power rejected the construct that it should consider clean energy portfolios to meet any perceived need,<sup>35</sup> or that any future limitation on carbon should restrict its investments.<sup>36</sup> The same inconsistencies in framing apply to the company's regulatory planning proceedings. In January 2019, the subsidiary Georgia Power submitted a long-term resource plan<sup>37</sup> (2019-2038) in which it assessed no end date within the planning period where it would seek to retire any of its 9 large coal-fired power plants. To date, the company has announced no foreseeable date by which it would phase out these 5,000 MW of coal - or 4,000 MW of gas combined cycle units, a clear inconsistency between its goal to achieve "net zero" by 2050 with no viable business plan to achieve that outcome.

Southern Company is only one example of many utilities that have announced climate commitments, but take clear business actions in contrast to those commitments. A recent review of the fifty (50) largest electric utilities in the US found that of the twenty (20) with climate pledges, only three (3) had coal retirement and clean energy build trajectories consistent with a 1.5 degree target.<sup>38</sup> The average utility with a climate pledge scored a "D" - committing to retire only a quarter of their coal fleet, and replacing less than a quarter of their coal or gas fleet with clean energy. And yet the pledges of these utilities appear ambitious to those who haven't examined the underlying business plans of the utilities.

In other cases, the business plans for fossil intensive industries indicate an intention for "big step" somewhere in the undefined future: far enough away to not substantively impact today's business decisions, but prior to a far-flung climate target. For example, in late 2020, Ameren Missouri, an electric utility, also established a "net zero" carbon emissions goal by 2050.<sup>39</sup> But a later resource plan by the utility indicated that it had no intention of retiring its largest coal-fired power plants anytime prior to mid-2040.<sup>40</sup> From the perspective of the utility's emissions, the backloaded retirements of these decades-old coal plants represents a future "big step." And while such a big step might appear to be one way to achieve the promised outcomes, it is both inconsistent with the implication of a carbon reduction trajectory and more importantly, represents an unenforceable commitment. From the perspective of the utility's captive ratepayers, the utility is continuing a business-as-usual trajectory, making only vague future promises. It is unreasonable to assess that a utility—or any other corporation—has made

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<sup>35</sup> Alabama Power, January 27, 2020. Petition for a Certificate of Public Convenience and Necessity, before the Alabama Public Service Commission. Docket 32953. Rebuttal Testimony of Michael Bush, Pages 2-3. [Rebuttal testimony available online.](#)

<sup>36</sup> *Id.* Rebuttal Testimony of Michael Bush, Page 15 at 13-16

<sup>37</sup> Georgia Power, January 31, 2019. 2019 Integrated Resource Plan, before the Georgia Public Service Commission. Docket 42310. See Public Disclosure ("PD") 2019 IRP Plan and Reference Tables, 2019 Resource Ledger - Base Case Existing and Committed Generating Unit Data. [Available online.](#)

<sup>38</sup> Sierra Club. January 2021. The Dirty Truth About Utility Climate Pledges. [Available online.](#)

<sup>39</sup> Ameren Missouri. September 28, 2020. Ameren establishes net-zero carbon emissions goal and a transformative expansion of wind and solar energy. [Available online.](#)

<sup>40</sup> National Public Radio. April 20, 2021. Sierra Club Says Ameren Missouri's 2050 Climate Goal Is Just "Too Slow." [Available online.](#)

a meaningful commitment if the substantive steps to achieve that commitment are so far in the future that today's actions may be completely disconnected from that future commitment.

While it is relatively straightforward to assess if rate-regulated utilities have viable business plans that are consistent with published climate plans (even if such assessments are rarely conducted by the investor or investor analyst community) assessing the viability of business plans consistent with climate targets for fully private businesses is almost impossible. But within the oil and gas industry, key factors indicate that business plans are deeply antithetical to stated climate commitments.

Due to the rapid decline of individual wellbores, particularly those from unconventional production techniques, oil and gas companies need to continue investing in additional production to simply maintain net revenues. The continued large-scale investment in new fossil infrastructure is inconsistent with the achievement of necessary climate goals, and deeply inconsistent with the climate goals put forward by many major producers. In addition, while many drilling producers divest themselves from lower productivity wells, they do so with full intention that those wells will be sold to "strippers," and will incur methane leakage for decades.

A closer read of the climate commitments of major oil and gas producers indicates that the extent of their business plans to meet climate goals includes improving the efficiency of their own power consumption, and promoting enhanced oil recovery techniques, but are absent of plans to reduce their core contribution to climate through the production of fossil combustion products.

It is unreasonable that corporations seek to attract investors clearly interested in tackling the climate crisis with stated commitments that have little or no basis in the corporate business decisions, and take no responsibility for their role in the production and widespread combustion of fossil fuels. To make these commitments meaningful, companies must be held accountable to their business plans.

Parallel to the necessity of commitment-consistent business decisions is the necessity of commitment-consistent business assumptions. As made clear by the SEC's investigation of Exxon from 2016-2018, the agency is aware that internal business assumptions on the future of climate risk and regulation can have material impacts on investor expectations. Corporations regularly tout climate commitments, and yet rely on completely inconsistent business assumptions, including but not limited to:

1. That carbon emissions will remain unmitigated from that corporation's particular industry, with reductions coming from other sectors or other market participants;<sup>41</sup>

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<sup>41</sup> This is an assumption that used to predominate in electric utility industry planning, with an implicit (or explicit) assumption that other utilities would be required to reduce carbon-intensive generation, raising the price of energy and making carbon intensive resources of the utility in question more attractive.

2. That demand for carbon-intensive fuels will remain constant, or grow, allowing producers to continue production or allocate mitigation requirements to their offtakers or customers;<sup>42</sup>
3. That there will be no real or shadow price on carbon emissions, or that an indeterminate volume of carbon offsets will be available at a nominal cost;
4. That fossil-intensive infrastructure will remain in operation through an indefinite period, including the operation or non-closure of oil and gas wells.<sup>43</sup>

*We encourage the SEC to require that companies producing climate targets also produce auditable business plans and rely on business assumptions that are meaningfully consistent with their climate targets on a reasonable trajectory. Consistent with the SEC's approach to other statements of intent by corporations that are material to corporate plans and of investor interest, the SEC must ensure that corporations are not able to produce meaningless climate commitments. The SEC must demand that businesses disclose the nature of their business plans that will actually achieve their stated commitments, and use planning assumptions consistent with those goals. The SEC must require that auditors verify that climate commitments are clearly articulated, and that business assumptions and plans are consistent with the trajectory of the commitment.*

In closing, we urge the Commission to act as it has in the past when investors have called for more information about companies' risks and uncertainties. The SEC has a unique opportunity to ensure that corporations disclose their climate risk through standardized reporting of Scope 1, 2, and 3 emissions, that climate commitments are meaningful and accountable, and that corporations plan and act consistently with their public commitments. The SEC has a timely opportunity to protect investors, protect against systemic risk, and protect the public interest by continuing to hold corporations accountable to existing standards, and crafting policy to clarify expectations of climate disclosure and risk.

Signed,

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<sup>42</sup> This assumption is commonplace in oil and gas production, where an insular view of climate mitigation assumes that other entities will not mitigate through the reduction of fossil fuel consumption.

<sup>43</sup> The assumption that oil and gas wells can remain open and in marginal operation indefinitely despite a climate mitigation construct is deeply problematic from an investor's perspective, as it allows for the backloading and deep discounting of asset retirement obligations (often into the period of many decades, or longer). In contrast, a consistent assumption that mitigation commitments or regulation will require near-term mitigation would have a substantial impairment impact on most oil and gas producers. A failure to account for this mitigation requirement has a destabilizing impact on the energy sector.