ERM

Environmental Resources Management, Inc.
1776 I St. NW
Suite 725
Washington, DC 20006

Telephone: +1 202 466 9090
Fax: +1 202 466 9191

www.erm.com

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File Number S7-10-22
Vanessa A. Countryman
Secretary, Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
Submitted via rule-comments@sec.gov

Dear Secretary Countryman,

The Energy Strategy Coalition[1] is submitting these comments to the Securities and Exchange Commission (the Commission) in response to proposed Enhancement and Standardization of Climate-Related Disclosures for Investors (Proposed Rules).[2]

Energy Strategy Coalition member companies operate and manage fossil-fuel, nuclear, hydropower, solar, wind, and other renewable generation, as well as electricity and natural gas transmission and distribution systems, serving tens of millions of customers across the United States. The Energy Strategy Coalition is committed to reducing greenhouse gas (GHG) emissions and other air pollution consistent with federal, state, and regional programs and goals, and based on our experience, member companies can make investments in clean energy while improving electric system efficiency, increasing reliability and resilience, and maintaining quality and affordability of service for our customers.

The Energy Strategy Coalition also understands that the increasing threats of climate change are factoring into operational and investment decisions of companies and investors. Energy Strategy Coalition companies have undertaken a variety of industry-leading activities to assess and manage climate change risk, reduce GHG emissions, and increase the resilience of the electric system. This includes reporting on environmental, social, and governance information as well as undertaking significant investments and planning processes to reduce emissions and improve the resilience of energy infrastructure to climate change risks. Further, because clean electricity will play a central role in broader economic decarbonization and climate change mitigation, the Energy Strategy Coalition recognizes that our operations, and information surrounding those operations, are central to many other entities' climate change and economic plans.

The disclosure of information regarding these activities, as well as other climate-related aspects of Energy Strategy Coalition member companies' businesses, continues to be a priority for our member companies. Our member companies have long worked with investors and other stakeholders to ensure that information regarding material risks is available to facilitate informed investment decisions, as well as to identify and make available other non-material climate information of interest as possible. Accordingly, our companies support increased consistency in climate risk disclosures as proposed. The Energy Strategy Coalition especially supports the requirements to disclose scope 1 and 2 emissions under reasonable assurance levels of verification.

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[1] This letter is submitted on behalf of the Energy Strategy Coalition: https://www.erm.com/coalitions/energy-strategy-coalition/. The Energy Strategy Coalition is a diverse association. As such, the comments contained in this filing represent the position of the Energy Strategy Coalition as an organization but does not necessarily represent the views of any particular member with respect to any specific issue. In addition, member companies may submit their own comments on this proposal. We note for the purposes of this letter that some of our members are not subject to the U.S. Securities and Exchange Commission jurisdiction.

[2] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 87 Fed Reg 21334 (April 11, 2022). https://www.govinfo.gov/content/pkg/FR-2022-04-11/pdf/2022-06342.pdf.

Furthermore, the Energy Strategy Coalition supports the Commission's use of existing frameworks and guidance as a starting point and guide for the Proposed Rules. Many of our companies, like others in our industry, have provided disclosures consistent with the Task Force on Climate-Related Financial Disclosures (TCFD) framework for multiple years. Utilizing TCFD, as well as the existing GHG Protocol, as a foundation of the Proposed Rules will ease adoption, allow for alignment with many existing processes, and provide an opportunity for experts in climate disclosures to continue to update and improve disclosure guidance on which the SEC may further rely.

The Energy Strategy Coalition provides the following specific comments in order to help the SEC improve its Proposed Rules in furtherance of the SEC's stated goals to protect investors, maintain fair, orderly and efficient markets, and promote capital formation through disclosures on the material climate-related risks public companies face. These comments include recommendations that the SEC:

- align timelines with existing reporting schedules for emissions reporting;
- consider revising the proposed implementation timeline;
- provide additional guidance around isolating financial impacts of climate change in financial disclosure requirements;
- clarify the information to be reported regarding scenario analysis;
- align certain reporting requirements to global frameworks; and
- provide additional clarity and definitions around the reporting of RECs and other clean energy attributes.

THE SEC SHOULD ALIGN TIMELINES WITH EXISTING REPORTING SCHEDULES FOR EMISSIONS REPORTING

The SEC has proposed that GHG emissions data be included in existing forms, i.e., Form 10-K, which follows a specific reporting schedule. We appreciate that the SEC recognizes that full emissions data are not likely to be available to meet financial reporting timelines. In the Proposed Rules, the SEC noted that several commenters indicated that registrants may find it difficult to complete GHG emissions calculations for their most recently completed fiscal year in time to meet disclosure obligations for that year's annual report. The Energy Strategy Coalition shares this concern, as even following best practices today, emissions data are not finalized until later in the year following the reporting year.

The SEC has offered to address this concern by proposing that when disclosing GHG emissions for its most recently completed fiscal year, registrants must provide GHG emissions data for the first three fiscal quarters but may provide a reasonable estimate of GHG emissions for the fourth fiscal quarter if actual data is not yet available by the time the annual report is due. In this case, registrants must disclose in a subsequent filing any material difference between the estimate used and the actual, determined GHG emissions data for the fourth fiscal quarter.

Based on Energy Strategy Coalition member experience reporting emissions, we believe that this proposed solution of estimating GHG emissions for the fourth fiscal quarter would create additional reporting burden and uncertainty for both registrants and investors. This approach would effectively require registrants to double their reporting effort for GHG emissions from the fourth fiscal quarter by providing this information in two separate filings. Furthermore, given the inherent uncertainty in estimating GHG emissions data, it is likely that these estimates will be different from actual, verified data once it becomes available. Therefore, Energy Strategy Coalition members believe that estimated data could cause registrants to disclose information that is below the SEC's general accuracy standard, making disclosures less reliable.

Rather than estimating GHG emissions for the fourth fiscal quarter, the Energy Strategy Coalition urges the SEC to consider implementing a lag on reported actual GHG emissions data per annum.[3] For instance, if in February 2025 a registrant files its Form 10-K for reporting year 2024, the registrant would provide in this filing the actual, complete, and verified GHG data from the full calendar year of 2023. This approach would allow for entities to include complete data consistent with existing schedules for GHG emissions reporting, including EPA's Greenhouse Gas Reporting Program (GHGRP),[4] the schedule for which accounts for the significant time and effort needed to gather and quality control data needed to accurately report emissions.

Aligning with EPA's reporting schedule would allow for GHG emissions data reported to EPA to undergo the EPA review process, providing an additional method of verification, and increase the consistency of reported data. Under the GHGRP, entities report data in April, and EPA usually completes its review by October. Therefore, utilizing a year lag on reporting GHG emissions in the 10-K would allow for inclusion of this complete and reviewed data. The emissions data that the SEC is requesting are utilized to determine long-term trends, identify progress toward corporate goals on multi-year (if not decadal scales), and explore how corporate emissions strategies align with other company performance trends. It is therefore not critical that a specific year's emissions data are reported in the same year as other financial or reporting metrics. Instead, allowing registrants to report actual GHG emissions data on a delayed basis will ameliorate the potential for undue reporting burden and uncertainty while continuing to meet investor needs. This approach will ensure that GHG emissions data are complete, verified, and provide information related to long-term emissions trends that is critical for investor decision-making.

Relatedly, the SEC should explicitly state that its emissions reporting thresholds are consistent with EPA's, such that what is reported to EPA is consistent with what is reported to the SEC. Adhering to a single threshold of emissions across federal agencies will further drive complete and accurate emissions reporting.

THE SEC SHOULD CONSIDER REVISING THE PROPOSED IMPLEMENTATION TIMELINE

As currently drafted, the Proposed Rules would require some registrants to begin implementation of large portions of the proposed disclosures by the 2023 filing year, including Scope 1 and 2 emissions reporting, management narratives, financial metrics and financial metrics audit compliance, and GHG targets and goals (if applicable). In order to accurately and successfully report much of this information, companies will need to begin collecting data as early as the start of the reporting year (i.e., January 1, 2023), only months after rules are finalized. Collecting, validating, and reporting these data will require new or modified systems and processes, resources provided by auditors and other third-party service providers, and possibly additional internal staff. For companies who have not already invested in GHG reporting and disclosure, this may be difficult to achieve, even if they begin now.

The Energy Strategy Coalition encourages the SEC to consider delaying the initial compliance timelines by 1 year (e.g., 2024 reporting year for the largest companies). This would allow for a smoother transition and more consistent compliance, especially across industries in which GHG reporting is less common and registrants and their service providers may be less sophisticated.

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[3] If the SEC does continue to pursue an estimation approach for some portion of the data, it must include a safe harbor provision for these data.

[4] U.S. EPA. Find and Use GHGRP Data (accessed May 12, 2022). https://www.epa.gov/ghgreporting/find-and-use-ghgrp-data.

THE SEC SHOULD PROVIDE ADDITIONAL GUIDANCE AROUND ISOLATING FINANCIAL IMPACTS OF CLIMATE CHANGE IN FINANCIAL DISCLOSURE REQUIREMENTS

Under the Proposed Rules, the SEC would require disclosure of financial impact of any identified transition risk and any effort to reduce GHG emissions or otherwise mitigate exposure to transition risk.

While the Energy Strategy Coalition in these comments is more focused on the GHG emissions reporting and modelling, we recognize that there are many possible approaches to financial metric disclosure. Energy Strategy Coalition companies, like many companies in the energy sector, have already heavily integrated climate risks into financial planning and financial reporting. Furthermore, companies regularly take business actions that have financial implications that are informed by climate change among many other factors. For example, the decision to retire or build a new power plant will certainly account for climate change-related risks, but will also be driven by economic factors, policy drivers, and other factors. Another example is system hardening and investment in transmission and distribution infrastructure. These investments are critical for operating and maintaining a system that can withstand the impacts of climate change events (such as increased intensity or frequency of storms), but just as importantly are also required as part of the ongoing obligation of Energy Strategy Coalition companies to provide reliable and resilient service to our customers. It is impossible to disaggregate how much of the cost to perform this work is attributable to ordinary operations and how much is attributable to climate change.

There are many reasonable approaches to isolate the impact of climate in this and many other decisions that have financial impactions. The Energy Strategy Coalition requests that the SEC consider providing additional guidance on how to report these as specific line items in financial statements. This guidance will ensure that companies across the energy sector—and registrants more broadly—use relatively consistent approaches that result in consistent and comparable information provided to the SEC and investors. We also request that the SEC consider comparable materiality standards and reporting requirements for other risks, as the proposed approach seems on its surface to require significantly more disclosure relative to the standards applied elsewhere.

THE SEC SHOULD CLARIFY THE INFORMATION TO BE REPORTED REGARDING SCENARIO ANALYSIS

Under the Proposed Rules, if a registrant uses scenario analysis, it would be required to disclose the scenarios considered as well as parameters, assumptions, and analytical choices, and the projected principal financial impacts on the registrant's business strategy under each scenario.

Scenario analysis is a powerful tool for assessing, under various possible future climate scenarios, how climate-related risks may impact a registrant's operations, business strategy, and consolidated financial statements over time. However, we are concerned that the SEC has not made clear exactly what it means by "scenario analysis." The volume of information requested could overwhelm stakeholders, decreasing the benefit of providing the data. This requirement could also, as an unintended consequence, discourage registrants from conducting scenario analysis.

If scenario analysis disclosures are retained in the final rule, the Energy Strategy Coalition recommends that the SEC at minimum make the following adjustments to help ensure—to the extent possible—that such disclosures provide relevant, decision-useful information to investors:

- The SEC should define scenario analysis in regulatory text and provide clear examples in the preamble. The SEC should also specify in the regulatory text that the scenario analysis implicated is climate-focused scenario analysis only. Energy Strategy Coalition companies utilize scenario analysis for a wide variety of assessments and decisions, and these should not be considered in scope here. Arguably, all scenario analysis is "climate-related," because it includes climate assumptions, though these scenario analyses should not be viewed within the scope of these Proposed Rules.

- The SEC should specify that only those climate-focused scenario analyses and scenarios that are used to inform material action, undertake transition planning, or support a public position should be in scope. Energy Strategy Coalition companies regularly conduct high-level or exploratory analyses as scoping exercises that are not ultimately published, finalized, or used for company action. These analyses should not be viewed as within the scope of these Proposed Rules.

- The SEC should clarify that the Proposed Rules require the disclosure of the climate-focused inputs and outputs of scenario analysis only. Many scenarios include numerous other inputs and outputs that are outside the scope of this rulemaking, for example cybersecurity vulnerabilities to critical infrastructure and other sensitive information.

- The level of information being requested in the Proposed Rules would be extensive and introduce an unnecessary reporting burden on registrants. The SEC should modify the Proposed Rules to require only high level summaries of inputs and outputs and a summary of application of the results or in what way the results are used to inform decision making.

THE SEC SHOULD ALIGN CERTAIN REPORTING REQUIREMENTS TO GLOBAL STANDARDS

The Energy Strategy Coalition requests that the SEC provide additional clarification and guidance on three issues to align with global standards:

- *The SEC should establish a clear plan to regularly review reporting requirements to take advantage of developments and learnings within existing frameworks*: The Energy Strategy Coalition supports the Commission's use of existing frameworks, such as TCFD and the GHG Protocol, as a starting point and guide for the Proposed Rules. In addition to enabling adoption and implementation of the Proposed Rules, this approach allows the SEC to take advantage of a rich body of existing work and established practice grounded in thousands of past filings and deep knowledge of climate science, impacts, and reporting. It will be important that the SEC's rules continue to reflect the best science and best practice as it develops through the work of these independent bodies, the EPA, and other environmental experts. The SEC should clearly establish a process and timeline to review and, if appropriate, modify their rules to ensure consistency with these best practices.

- *If the SEC continues pursuing the reporting of Scope 3 emissions data, the SEC should provide additional guidance around Scope 3 materiality*: While the Energy Strategy Coalition appreciates the SEC leveraging guidance from the GHG Protocol, the SEC should provide more guidance around what is considered material regarding Scope 3 emissions. Scope 3 emissions are, by definition, harder to measure and report since they are not directly under the control of a registrant. The GHG Protocol currently includes fifteen different categories of Scope 3 emissions, both upstream and downstream of operations. The SEC should clarify that materiality should be determined individually for each category. In this way, a registrant would be required to report on Scope 3 emissions *for a specific category* if that category is deemed material, but would not necessarily be required to report such emissions for all other categories. This ensures that any Scope 3 emissions reported are in categories that are relevant to investors.

- *The SEC should adopt GHG Protocol guidance for Scope 2 emissions calculations*: the Proposed Rule correctly highlights that there are two common methods for calculating Scope 2 emissions for purchased electricity: the market-based method and the location-based method. According to GHG Protocol guidance, together, these methodologies provide a fuller documentation and assessment of risks, opportunities, and changes to emissions from electricity supply over time; the GHG protocol accordingly requires companies to utilize *both* approaches. However, unlike the GHG Protocol, the Proposed Rule would permit a company to calculate Scope 2 emissions using *either* the market-based method or the location-based method, both methods, a combination, or any other method. This lack of a standard reporting methodology undermines the overarching goal of the Proposal to provide for consistent and comparable emissions data across companies. Instead, the SEC should require Scope 2 emissions data as articulated in the GHG Protocol and require Scope 2 emissions reporting using both the market-based method and the location-based method.

THE SEC SHOULD PROVIDE ADDITIONAL CLARITY AND DEFINITIONS AROUND THE REPORTING OF RECS AND OTHER CLEAN ENERGY ATTRIBUTES

Many companies use the procurement of renewable energy credits (RECs) and other clean energy attributes to demonstrate use and support of renewable or zero emissions energy. The SEC should broaden the use of the term "REC" to include other zero or clean energy credits, such as zero emissions credits. As currently written, the Proposed Rules fail to recognize the broader category of GHG emissions-free energy products that are available to and used by consumers interested in reducing Scope 2 energy emissions, which include attributes from non-renewable, clean generation such as nuclear energy.

The Energy Strategy Coalition supports the Commission's proposed requirements for these purchases to be described and disclosed when reporting targets and goals, which include the amount of generated renewable and zero emissions energy represented by clean energy attributes, the source of the attributes, a description and location of the underlying projects, any registries or other authentication of the attributes, and the cost of the RECs. However, there is currently a gap between what is required to be disclosed about RECs and other clean energy attributes when discussing targets and goals relative to emissions. As proposed, if a company has not set any target or goal, it would not be required to disclose any claims it may make with respect to procurement actions used to reduce GHG emissions. This additional detail, beyond what is currently proposed, could help provide additional relevant information to investors about the efforts undertaken by the company to reduce emissions attributable to them in relation to the energy they are using. These factors can have significant impacts on the actual emissions impact of the clean electricity procurement and disclosing this detail will allow investors to better understand the true emissions profile of a registrant.

Issues associated with "double counting" and "time matching" of clean energy attributes will become increasingly important as expectations for clean energy use increases over time. Requiring these details to be included with a registrants' accounting will help to inform investors of how prepared the registrant is for achieving low carbon ambitions over the long-term. Specifically, the SEC should clarify that registrants should report the total amount of electricity use, the total amount of clean energy attributes retired on their behalf, the reference for the emissions factors used for both location-based and market-based accounting, and whether the entity procured RECs on an hourly, daily, or annual basis in line with the entity's actual electricity consumption. These are the recommended standard disclosures in the current Scope 2 accounting guidance.

The Energy Strategy Coalition appreciates the opportunity to provide comments on the Commission's efforts to guide climate-related disclosures. We look forward to continuing to engage with the Commission on development of guidelines that allow for the disclosure of consistent and comparable climate-related information.

Sincerely,

Tom Curry
Energy Strategy Coalition