



Submitted electronically via SEC.gov

The Honorable Chair Gary Gensler
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Public Comment, The Enhancement and Standardization of Climate-Related Disclosures for Investors

Dear Chair Gensler:

Targa Resources Corp. (“Targa”) (NYSE: TRGP) appreciates the opportunity to comment on the U.S. Securities and Exchange Commission’s (the “SEC” or the “Commission”) proposed rule on The Enhancement and Standardization of Climate-Related Disclosures for Investors (the “Proposed Rule”).

Targa is a publicly traded Delaware corporation formed in October 2005. Targa is a leading provider of midstream services and is one of the largest independent midstream infrastructure companies in North America. We own, operate, acquire, and develop a diversified portfolio of complementary domestic midstream infrastructure assets. We are engaged primarily in the business of: (1) gathering, compressing, treating, processing, transporting, and purchasing and selling natural gas; (2) transporting, storing, fractionating, treating, and purchasing and selling natural gas liquids (“NGLs”) and NGL products, including services to liquified petroleum gas exporters; and (3) gathering, storing, terminaling, and purchasing and selling crude oil.

Targa generally supports the Commission’s overall goal to provide consistent, comparable, and reliable decision-useful information to investors through disclosure of climate-related risks and metrics. We are committed to implementing programs and practices that will improve our environmental performance and minimize risk and have adopted two important climate-related goals: (1) lowering the intensity of methane emissions from our operations and (2) reducing flaring in our operations. Our commitment is evidenced by Targa’s achievements thus far and the continued investments we are making in this space. These achievements include a reduction in flaring volumes from emissions events in 2020 as compared to 2019, a decrease in the total number of flaring incidents over the same period, and a reduction in CO₂e resulting from the installation of electric compression. In addition, since 2000, Targa has been a member of the Environmental Protection Agency’s (“EPA”) Natural Gas STAR Program and in 2021 joined Our Nation’s Energy Future. Additionally, we joined API’s Environmental Partnership in 2021. Targa has also implemented various environmental programs designed to minimize the impact of our business on the environment and local communities, including leak detection and repair programs, water management, and waste management and minimization. Targa publishes

an annual sustainability report, available on our website, outlining our strategy and accomplishments relating to environmental, social, and governance topics.

Although Targa generally supports the Commission’s intent behind enhanced disclosure of climate-related risks and metrics, we have identified certain requirements of the Proposed Rule that are unclear and potentially problematic both in terms of implementation and costs of compliance. Targa foresees substantial costs to comply with the Proposed Rule with respect to the areas of emission accounting and reporting and financial reporting, amongst others. The issues discussed in this letter are not the only issues Targa has identified with respect to the Proposed Rule, merely the most problematic in Targa’s view, and Targa generally supports the comments of the Energy Infrastructure Council to the Proposed Rule. Our comments specify these areas in the general order as they appear in the Proposed Rule and provide suggestions that are both workable for registrants and helpful to investors. Targa believes the Commission should:

1. Remove the requirements of climate-related “expertise” as applicable to a registrant’s board of directors, or, alternatively, clarify certain requirements and enhance the protections of any identified individuals with such expertise;
2. Refrain from finalizing its proposed changes to Regulation S-X at this time or, alternatively, provide an additional two to three years for compliance, beyond the current proposal;
3. Modify its proposed requirements for the disclosure of certain risk management tools by limiting disclosure to when the results identify material climate risks or, alternatively, adopt a three-year phrase-in period for compliance;
4. Limit the proposed requirements for physical climate risk disclosure to a registrant’s own operations and provide clearer definitions related to such risks;
5. Remove the requirement to report Scope 3 emissions under any circumstance, or, alternatively, adopt an approach to the accounting and reporting of Scope 3 GHG emissions based on material categories of Scope 3 emissions to a registrant’s business; and
6. Clarify that Proposed Item 1506 applies only to quantitative climate-related targets.

The following more fully sets forth our comments.

1. The Commission’s Proposed Requirements for Climate-Related Expertise on the Board of Directors are Impractical and Should be Withdrawn, or Alternatively, Clarified and Include Enhanced Liability Protections.

Proposed Item 1501(a) requires extensive disclosures related to the board of directors’ oversight of climate-related risks.¹ Included therein is a requirement to disclose “whether any member of the board of directors has expertise in climate-related risks with disclosure in such detail as necessary to fully describe the nature of the expertise.”²

¹ Proposed 17 C.F.R. § 229.1501(a).

² *Id.* § 299.1501(a)(1)(ii)

The Proposed Rule fails to define the term “expertise in climate-related risks” and the preamble provides no clarification. Importantly, it is not clear what might qualify as “expertise” in this area. The Commission also fails to provide any reasonable standards against which the climate-related experience of current directors may be evaluated—for example, work experience and education. The lack of a clear definition presents challenges for registrants as they work to determine how to comply with this rule.

Moreover, the mere fact that the disclosure is required will result in unintended risks that may harm the overall business and, therefore, investors. The Proposed Rule will pressure companies to appoint a climate expert because shareholders could expect such an expert is required by the Proposed Rule. This would be impractical—to effectively serve on a company board and protect the interest of shareholders, corporate directors must possess a broad range of skills and experiences that enable them to serve on core committees and provide appropriate industry-relevant oversight of the company. The Commission’s proposal removes companies’ flexibility to select the right board members for the job by elevating climate-related expertise over other business considerations. Moreover, any elevation of climate risks above other relevant risks with respect to corporate governance could distract the board and management from other pressing, material matters. Existing corporate fiduciary duties, such as the duty of care, require obtaining all material information to guide business decisions. These requirements appear to provide little benefit to investors but present significant risks to registrants. Additionally, compelling further information as to a registrant’s internal decision-making regarding climate-related risks (and climate-related opportunities) will likely have a chilling effect. Subjecting a registrant’s internal considerations or changes in policy to disclosure requirements will necessarily cause its board to become more cautious and scripted in discussing these items. For these reasons, Targa requests that the Proposed Rule’s requirements related to climate governance be removed from any final rule.

If the Commission does not remove these requirements, the issues described above require additional clarification to ensure clear guideposts for compliance. Targa therefore requests that the Commission clarify that the board “expertise” requirement for climate change could be met through training or practical experience regarding climate-related risks or director education.

Additionally, Targa is concerned with the lack of any safe harbor provision applicable to those individuals identified as having expertise in climate-related risks. Targa notes that the Commission implemented a safe harbor for a parallel provision on expertise in its recently released proposed rule to enhance and standardize disclosures regarding cybersecurity risks management, strategy, governance, and incident disclosure.³ Similar to the Proposed Rule here, the Commission’s proposed rule on cybersecurity seeks to require public companies to disclose whether any members of their boards have cybersecurity expertise and, if so, the names of such directors and details fully describing the nature of such expertise.⁴ Importantly, the proposed rule on cybersecurity incorporates a safe harbor providing that a person who is determined to have

³ Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure, 87 Fed. Reg. 16,590 (Mar. 23, 2022).

⁴ Proposed 17 C.F.R. § 229.407(j)(1).

cybersecurity expertise will not be deemed an expert for any purpose, including, without limitation, Section 11 of the Securities Act. No additional duties, obligations, or liability will be imposed on the director as a result of his/her expertise. Moreover, the duties, obligations, or liability of any other member of the board will also not be affected by the designation of a director as having such expertise.

General disclosure of the board's role in risk oversight is already required by existing rules related to proxy statements. Thus, the Proposed Rule's requirements related to climate governance are unnecessary and should be removed from any final rule. If the Commission does not remove these requirements, then Targa encourages the Commission to adopt the same protections here for directors identified as having climate-related expertise. This may alleviate concerns of individuals contemplating board service in the future and may also mitigate any potential chilling effect of this disclosure due to liability concerns. This is all the more important when, as here, the Proposed Rule fails to provide any guidance as to what constitutes "expertise" with respect to climate-related risks.

2. The Commission Should Refrain from Finalizing its Proposed Changes to Regulation S-X at this Time, or Alternatively, Provide an Additional Two to Three Years for Compliance Beyond the Current Proposal.

a. The Commission Proposes Extensive Requirements for Companies to Include Financial Statement Disclosures on a Line-Item Basis Anytime that the Absolute Value of Climate Impacts Exceeds 1% of the Line Item.

Under the proposed amendments to Regulation S-X, the Commission would require certain climate-related financial statement metrics to be included in a note to the registrant's filed financial statements.⁵ Such disclosures would fall under three categories: (1) financial impact metrics; (2) expenditure metrics; and (3) financial estimates and assumptions. The financial impact metric disclosures under Proposed Rule 14-02(c), (d), and (i) would require a registrant to disclose the financial impacts of severe weather events,⁶ other natural conditions,⁷ transition activities,⁸ and identified climate-related risks⁹ on its consolidated financial statements *unless* the aggregated impact of these events, activities, and risks is less than 1% of the total line item for the relevant fiscal year.¹⁰

Registrants will have to design and implement new disclosure control practices, already a costly endeavor but one that will be compounded by costs that will result from a lack of guidance on how to approach the financial reporting of climate-related impacts. Primarily, the Proposed Rule fails to make clear how a registrant should separate its expenditures and attribute a specific portion to climate-related impacts when, as often is the case, there are several factors affecting any given line item. For example, if a registrant's insurance costs increase, a registrant will be

⁵ 87 Fed. Reg. at 21,464.

⁶ Proposed 17 C.F.R. § 210.14-02(c).

⁷ *Id.*

⁸ *Id.* § 210.14-02(d).

⁹ *Id.* § 210.14-02(i).

¹⁰ *Id.* § 210.14-02(b)(1).

hard-pressed to attribute this increase, or a portion of the increase, to the results of climate-related risks. Such difficulties are further apparent when applied to transition risks given that many such costs are not, or cannot be, quantifiable in nature. Registrants will, therefore, have to undertake significantly more work to make such determinations in order to comply with this requirement, all in the absence of clear, guiding parameters. As a result of this lack of guidelines, it is likely that registrants will take a number of divergent approaches as to compliance with the proposed financial reporting requirements. Divergent approaches reduce comparability, a facet that investors have come to expect with respect to financial reporting and a central tenet of the Proposed Rule.

Public companies will need to conduct extensive and costly assessments of potential impacts to determine if they trigger the reporting threshold and revise controls on their financial reporting systems to account for the unprecedented 1% reporting threshold. Thus, notwithstanding if a registrant has to disclose such information, it will still need to engage in data calculation and subsequent calculations to determine whether it falls below the threshold for materiality. Moreover, where the threshold is not met, registrants will still need to “show their work” to demonstrate to the Commission that disclosure is unnecessary. This is unduly burdensome. Registrants will also need to devote significant time and resources to the requirements of the proposed amendments to Regulation S-X to account for those climate-related risks identified pursuant to Proposed Item 1502. Many of the disclosure requirements there, for example, require registrants to compile significant data with respect to physical climate-related risks, including location details down to the zip code level¹¹ and percentages of assets exposed to particular physical climate risks.¹² Providing this level of detail requires significant retraining of employees and retooling of company internal reporting practices, and the value of such granular information to investors is questionable.

Devising an entirely new disclosure framework to address the proposed revisions to Regulation S-K will be a significant undertaking in and of itself. Developing new accounting procedures on top of that only compounds the burden further. The problem is only further highlighted by the Commission’s proposed approach to reporting historical climate-related financial impacts. In its current form, the Proposed Rule requires that the line-item information discussed above be provided for historic periods,¹³ with no phase in period. If the rule is finalized on the Commission’s proposed schedule, this will effectively require registrants to create climate-related financial data for fiscal years 2021 and 2022, layering a costly additional exercise on top of an already costly exercise. This would be incredibly burdensome and potentially infeasible to retroactively collect in the forms contemplated by the Proposed Rule. While the Proposed Rule states that historical data only needs to be disclosed if “reasonably available,” and that “the registrant *may* be able to rely on Rule 409 or Rule 12b-21 to exclude a corresponding historical metric,” this is insufficient guidance to registrants.¹⁴ As stated, climate-related risks, even if accounted for, are not typically broken out as individual line items. Therefore, most, if not all registrants, will face the daunting reconstruction exercise cited above. The Commission should remove the requirement for historical reporting of climate-related impacts, or

¹¹ See, e.g., *id.* § 229.1502(a)(1)(i)(A), (B).

¹² See, e.g., *id.*

¹³ Proposed 17 C.F.R. § 210.14-01(d).

¹⁴ 87 Fed. Reg. at 21,364.

alternatively, clarify in the final rule if the data is not already readily available then it is per se unreasonable for a registrant to have to report historical climate-related financial impacts.

b. Setting an Artificially Low Threshold Will Increase Risks of Distorting Investor Perceptions.

The 1% threshold for reporting costs on climate change for each income statement line is unprecedentedly low. Importantly, public company disclosures are already anchored to pre-existing materiality standards, capturing more traditional principles. The examples of other 1% reporting threshold requirements provided in the Proposed Rule are inapposite because they do not address line-item reporting. This is best illustrated by the Commission’s Staff Accounting Bulletin (“SAB”) No. 99 which details the development of guiding principles to determine quantitative thresholds to assist registrants in preparing their financial statements.¹⁵ Staff endorsed registrants use a 5% threshold of materiality, at least as a preliminary step in determining materiality, and consider qualitative factors, an approach encouraged by the Commission to view the “total mix” of information.¹⁶ Other areas in GAAP do not have prescriptive materiality thresholds; rather, they call for a quantitative and qualitative assessment and look to what a “reasonable person” would consider to be important.¹⁷ The 1% threshold here is overly burdensome and will result in reporting information to investors that is simply not material. Moreover, to the extent that climate risks are material, their disclosure is already required under the Commission’s 2010 guidance with respect to climate-related risks.¹⁸

Targa requests that the Commission withdraw its proposed amendments to Regulation S-X. Alternatively, Targa requests that the Commission bifurcate its rulemaking, deferring the proposed amendments to Regulation S-X until it is better positioned to issue a supplemental notice of proposed rulemaking that provides improved guideposts for assessing potential climate-related financial impacts. Barring adoption of these approaches, the Commission should provide an additional two to three years for compliance, beyond the current proposal, to allow for the development and implementation of the necessary accounting systems and disclosure controls to comply with the final rule, to include the hiring and upskilling of employees. Additionally, this would allow for the accumulation of the requisite data required under Regulation S-X.

¹⁵ Staff Accounting Bulletin No. 99 (Aug. 12, 1999).

¹⁶ *Id.*

¹⁷ *See, e.g., Basic Inc. v. Levinson*, 485 U.S. 224, 231–32 (1988) (explaining that, to fulfil the materiality requirement, “there must be a substantial likelihood that the disclosure of [an] omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available” and further noting the Commission’s adoption of “not . . . too low” a materiality standard to avoid “an overabundance of information”) (internal citations omitted).

¹⁸ Commission Guidance Regarding Disclosure Related to Climate Change, 75 Fed. Reg. 6,290 (Feb. 8, 2010) (codified at 17 C.F.R. pts. 211, 231, and 241).

3. The Commission’s Requirements to Disclose the Use of Certain Climate Risk Management Tools Will Disincentivize Their Adoption and Should be Modified or, Alternatively, be Subject to a Three-Year Compliance Phase-In Period.

The Proposed Rule seeks additional disclosures in relation to registrants’ use of climate risk management tools such as internal carbon pricing¹⁹ and scenario analysis.²⁰ For example, with respect to the latter of these tools, a registrant would be required to “disclose the scenarios considered (*e.g.*, an increase of no greater than 3 °C, 2 °C, or 1.5 °C above pre-industrial levels), including parameters, assumptions, and analytical choices and the projected principal financial impacts on the registrant’s business strategy under each scenario.”²¹ Any disclosures related to this should include both qualitative and quantitative information.²² The Commission expressly seeks comment on whether these requirements would disincentivize the use of analytical tools and, if so, how to address this challenge.²³

The granular nature of the required disclosures is a significant disincentive to registrants to adopt such climate risk assessment tools. Moreover, much of the information required borders on disclosure of confidential strategy and proprietary business information. Combined, this results in a disincentive that directly runs counter to the Commission’s stated goal to increase the amount and quality of climate-related information available to investors.

Targa encourages the Commission to modify the requirements of disclosure regarding these risk management tools, requiring disclosure only when the results of these analyses identify material climate risks, determined through the application of traditional principles of materiality. In the alternative, if the Commission presses forward with the requirement to disclose climate scenario analysis, it should do so with a three-year phase-in period. Under this approach, the following could apply:

- In the first year, after commencing climate scenario analysis, the registrant would only need to disclose the fact that it has conducted such an analysis.
- In the second year, if the registrant continues with climate scenario analysis, it would be required to add disclosures regarding methodologies and any data gaps identified.
- In the third year, registrants would be required to disclose the full results of their climate scenario analysis.

The above approach offers several advantages that would encourage the adoption of climate scenario analysis as a tool to manage climate risks and, relatedly, mitigate the disincentives associated with the granular reporting requirements. First, the approach gives registrants the ability to try climate scenario analysis for a year and assess its results before providing detailed disclosures. This is important to overcome the chilling effect of the requirement to disclose

¹⁹ Proposed 17 C.F.R. § 229.1502(e).

²⁰ *Id.* § 229.1502(f).

²¹ *Id.*

²² *Id.*

²³ *See* 87 Fed. Reg. at 21,358.

results *before* a company has even undertaken any such analysis. Second, the approach gives registrants time to assess available scenarios, analytical approaches, and the multi-decadal projections that are involved in climate scenario analysis. Registrants are then able to assess the significance of any identified climate risks before disclosure of such risks is required. Third, and most importantly, the approach gives registrants the time to assess the materiality of any climate risks identified over a multi-decade timeline and adopt any necessary risk management measures prior to the disclosure of the results of the climate scenario analysis. Providing registrants a three-year phase-in period is essential. It avoids the disclosure of long-term projections of climate impacts without due consideration given to the likelihood of such impacts and how these impacts might be mitigated through shifts in corporate strategy and capital allocation.

Targa urges the Commission to consider the above approach as a means of avoiding the disincentivizing of the adoption of climate risk management tools by registrants subject to the regime of the finalized rule.

4. The Proposed Definition of “Physical Risks” is Unworkable and the Commission Should Clarify and Limit Requirements for Physical Climate Risk Disclosure to a Registrant’s Own Operations.

“Physical risks,” as defined by the Proposed Rule, “include[s] both acute and chronic risks to the registrant’s business operations or the operations of those whom it does business.”²⁴ Pursuant to Proposed Item 1502, a registrant would be required to disclose climate-related risks—physical and transition—likely to have a material impact on its business or consolidated financial statements.²⁵ For physical risks in particular, a registrant must “describe the nature of the risk, including if it may be categorized as an acute or chronic risk, and the location and nature of the properties, processes, or operations subject to the physical risk.”²⁶

The proposed definition of “physical risks” is too broad to be workable for registrants because of the need to assess physical risks to all the entities with whom a registrant does business. Specifically, there is no practical way for a company to assess the potential negative impacts of physical climate-risks on every entity with whom it does business. For example, if applied literally as written, the Proposed Rule’s physical risk definition could ultimately require the disclosure of zip code-level information regarding a company’s suppliers or customers with facilities in “flood prone areas” to be included in an annual report.²⁷ However, the Proposed Rule does not define “flood prone areas.” In theory, while registrants could look to the Federal Emergency Management Agency’s National Flood Insurance Program for operations within the United States, this approach would not provide a working definition for operations outside the United States. Without further clarity on what a flood hazard area is, each registrant will create their own definitions that are likely to vary across companies. Variability in approach will not serve the Commission’s goal to provide comparable and reliable disclosures among registrants.

²⁴ Proposed 17 C.F.R. § 229.1500(c)(1).

²⁵ *Id.* § 229.1502(a).

²⁶ *Id.* § 229.1502(a)(1)(i).

²⁷ *Id.* § 229.1500(k).

This problem is further exacerbated by the nature of the disclosures required under Proposed Item 1502. The information the Commission seeks under this provision of the Proposed Rule would involve burdensome data collection activities for registrants as they assess their *own* businesses. In extending the definition of “physical risks” to the operations of entities with whom a registrant does business with, these burdens are only further compounded and compliance with the granular requirements for physical risks disclosures becomes increasingly more difficult. This is especially true for a registrant like Targa whose business is the transportation of commodities that may ultimately be used for a variety of purposes around the globe. In its current form, the definition implicitly requires that registrants know the exact facilities within their supply chain that supply their businesses and to which their products flow. Registrants would also be required to either conduct physical risk analysis for these facilities or require that such information be provided to them by every entity with whom they do business. This requirement dramatically expands the amount of information that registrants must consider, potentially leading to lengthy, confusing disclosures that do not produce material information and are not decision-useful to investors.

The lack of clear definitions in the Proposed Rule’s physical climate risks requirements will result in inconsistent approaches to disclosure and harm investor interests. One such example relates to the disclosures related to impacts from water stress. A registrant must disclose the amount of assets (*e.g.*, the book value and as a percentage of total assets) located in regions of high or extremely high water stress, if a risk concerns the location of assets in such regions.²⁸ Moreover, a registrant must disclose the location and “the percentage of [its] total water usage from water withdrawn in those regions.”²⁹

The Commission fails to define “water stress”—a term which can have a variety of meanings—and also fails to delineate reasonable boundaries around what triggers reporting under this provision. For example, even in areas with periods of persistent drought, there are a variety of factors that may mitigate risks to a particular registrant’s operations, such as reliance on recycled water, industrial water, or water option contracts. Similar issues arise when assessing direct physical risks and value chain risks with respect to “wildfire-prone” areas. Lack of clarity will likely result in registrants over-disclosing information on physical risks. Additionally, and similar to many other areas of the Proposed Rule, the level of granularity sought by the Commission, unbounded by traditional principles of materiality, calls into question the value investors will receive from any disclosure.

Over-disclosure in this area, as a result of the lack of a defined term, could potentially trigger additional disclosures by registrants who will add more, but importantly, *immaterial* information to their securities filings. Relatedly, this will distort investor perceptions as to the risks that may impact a registrant’s business and, correspondingly, its value. This goes squarely against the Commission’s mission to provide consistent, comparable, and reliable decision-useful information. Therefore, we request that the Commission remove the requirement to assess physical risks related to the entities with which a registrant does business, apply a materiality threshold to the assessment of direct physical risks, and provide additional clarification on the definitions of physical climate risks (*e.g.*, “water stress,” “wildfire prone,”) on issues such as

²⁸ *Id.* § 229.1502(a)(1)(i)(B).

²⁹ *Id.*

frequency and severity to ensure the scope of the analysis required under the Proposed Rule is clear. To the extent that the Commission determines that separate disclosures on physical risks as applied to a registrant's supply chain will be required, it should create a new definition for "supply chain risks." Disclosures made pursuant to this new definition should then be limited to the extent that such risks are material and identifiable and should be clarified so as not to require registrants to incur costs associated with collecting data from third parties if the information is not readily available.

5. The Commission Should Not Adopt the Scope 3 Emission Reporting Requirements, or Adopt an Alternative Approach to the Disclosure of Scope 3 GHG Emissions Based on Categories of Material Emissions to a Registrant's Business.

Pursuant to Proposed Item 1504, a registrant is required to disclose its Scope 1 GHG emissions (*i.e.*, direct emissions from operations that it owns or operates), its Scope 2 GHG emissions (*i.e.*, indirect emissions from the generation of purchased or acquired electricity, steam, heat, or cooling consumed by operations owned or operated), and its Scope 3 GHG emissions (*i.e.*, all indirect emissions not otherwise included in Scope 2 emissions that occur in upstream and downstream activities of the value chain). Targa already discloses Scope 1 emissions pursuant to the U.S. EPA's Mandatory GHG Reporting Rule ("GHGRP"). These emissions are publicly available on the EPA's website,³⁰ and Targa also voluntarily discloses such emissions in its Sustainability Report. EPA's GHGRP already captures 85%-90% of GHG emissions in the U.S.³¹ However, the Proposed Rule would only allow the GHGRP to partially fulfill its Scope 1 emission reporting requirements. Some registrants, including Targa, voluntarily report Scope 1 emissions calculated in accordance with the GHGRP in their sustainability reporting.

While Targa endorses the comments to the Proposed Rule filed by the Energy Infrastructure Council regarding alignment of the Commission's emissions reporting requirements with respect to scope and timing of reporting with existing environmental reporting requirements such as the GHGRP, Targa does not restate those arguments here and limits its comments in this letter on emissions reporting issues to Scope 3 emissions. Under the Proposed Rule, a registrant need only disclose Scope 3 GHG emissions if "material" or if included in a GHG emissions reduction target or goal.³² The Proposed Rule requires reporting of "total" Scope 3 GHG emissions.³³

The calculation of Scope 3 emissions is subject to evolving standards and approaches. The Proposed Rule does not provide any reasonable guideposts for registrants to assess their Scope 3 emissions. Collecting and verifying additional Scope 3 GHG emissions data across the

³⁰ U.S. Environmental Protection Agency, Greenhouse Gas Reporting Program, Data Sets, <https://www.epa.gov/ghgreporting/data-sets> (last visited June 13, 2022).

³¹ U.S. Environmental Protection Agency, Learning about the Greenhouse Gas Reporting Program, <https://www.epa.gov/ghgreporting/learn-about-greenhouse-gas-reporting-program-ghgrp> (last visited June 13, 2022).

³² Proposed 17 C.F.R. § 229.1504(c)(1).

³³ *Id.*

company's value chain in order to comply with the Commission's Proposed Rule will pose significant burdens and costs on companies like Targa. The Proposed Rule would require a registrant to hunt through their value chains, expending employee time on contacting parties of varying degrees of sophistication in an attempt to collect the data called for by the Proposed Rule. This will inevitably result in the collection of incomplete or inaccurate data, which will not serve the Commission's stated purpose of providing investors with quality comparable data. Ultimately, the burdens registrants would face under the Proposed Rule are not likely to yield additional material information useful to investors. Moreover, the costly efforts required to collect Scope 3 emissions data will also likely result in a diversion of management's attention to the collection of data that will be difficult for investors to comprehend and of little relevance to the company itself.

Registrants are unlikely to have the contractual right to this data, and parties within a registrant's value chains are also unlikely to be tracking the data needed for Scope 3 calculations. This means registrants could be forced to use estimates, based on a number of factors, resulting in divergent approaches to Scope 3 emissions accounting and reporting. Even if there are entities within a registrant's value chain who have the ability to track and report this data, the varying degrees of sophistication of parties within a registrant's value chain will result in inconsistent quality of emissions data. These data collection and reporting concerns will result in quality control problems and reporting such data does not serve the interests of investors. Accordingly, the Commission should withdraw the requirement to disclose Scope 3 emissions data to avoid these unintended consequences.

If the Commission nevertheless requires the disclosure of Scope 3 emissions, any final rule must provide clarity and flexibility on acceptable approaches to drawing Scope 3 boundaries. For example, the Proposed Rule endorses the use of the GHG Protocol when calculating emissions of various scopes. The GHG Protocol does not necessarily require allocating end-use combustive emissions to a midstream entity's Scope 3 emissions. This is because midstream entities typically do not own the products they transport or process, and merely provide a service. However, Targa has taken a different approach in its voluntary reporting practices and has disclosed combustive emissions from the end use of commodities in Targa's systems placed into commerce. Targa chose this approach because it aligned with its pre-existing GHG emission reporting obligations under the EPA GHGRP, was easily implemented, and the approach was understandable to investors.

Under Subpart NN of the GHGRP, Targa must report emissions that would result from the complete combustion or oxidation of its products placed into commerce, collecting the necessary data, calculating the associated GHG emissions, and "follow[ing] the specified procedures for ensuring data quality, amending missing data, and meeting recordkeeping and reporting requirements."³⁴ Combustive emissions from the end use of fossil fuels are generally thought to be the most relevant source of Scope 3 emissions to the traditional energy sector. Targa adopted an approach to Scope 3 calculation and reporting that minimized costs, had clear, well-known accounting parameters, and that Targa believes provides information on topics relevant to its climate-focused investors. Effectively, Targa leveraged its Subpart NN reporting

³⁴ *Suppliers of Natural Gas and Natural Gas Liquids*, EPA (Feb. 2018).

requirements as a proxy for determining those Scope 3 emissions that Targa deemed material to its operations.

A flexible approach is all the more important given that Scope 3 emissions represent an evolving area not easily understood by investors. As an alternative to the current form of the Proposed Rule, if the proposal is not withdrawn, Targa suggests that the Commission adopt the following framework for Scope 3 GHG emissions reporting:

1. Allow issuers to apply the Supreme Court’s traditional test for materiality³⁵ to determine if Scope 3 GHG emissions potentially require disclosure;
2. Allow registrants to define and disclose categories of material Scope 3 GHG emissions that are tailored to the registrant’s line of business (*e.g.*, financial institutions would likely identify categories of financed emissions where Scope 3 is potentially material);
3. Require registrants to assess each category of Scope 3 GHG emissions and describe how a materiality determination for the category of emissions was made. If there is insufficient data available for any category to make a materiality determination, the registrant should disclose this fact; and
4. Disclose the estimates and methodologies used to calculate Scope 3 GHG emissions for material categories.

Fundamentally, there is questionable value in reporting *all* of a registrant’s Scope 3 GHG emissions because data will not always be readily available and therefore quality will not be consistent. Adopting the alternative approach suggested above has the benefit of providing reasonable limitations in any Scope 3 GHG analysis for registrants while still ensuring that investors have access to information on the aspects of a registrant’s value chain where Scope 3 GHG emissions have the potential to lead to material impacts on the company. Additionally, given the uncertainties with respect to Scope 3 emission calculation, Targa also requests that the Commission deem any Scope 3 emissions required to be reported as furnished and not filed because registrants should not be subject to unreasonable liability for disclosures calculated in good faith with transparency.

6. The Commission Should Clarify that Proposed Item 1506 Applies Only to Quantitative Climate-Related Targets.

Proposed Item 1506 requires registrants to disclose any climate-related targets or goals it has set.³⁶ Such climate-related targets are broadly defined to include those related to the

³⁵ *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438 (1976) holds that a fact is material “if there is a substantial likelihood that a reasonable shareholder would consider it important” in making an investment decision, or if it “would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available” to the shareholder. *See also Basic Inc.*, *supra* note 16.

³⁶ Proposed 17 C.F.R. § 229.1506(a)(1).

reduction of GHG emissions as well as those “regarding energy usage, water usage, conservation or ecosystem restoration, or revenues from low-carbon products.”³⁷ Registrants would, as applicable, disclose: (1) the scope of the activities and emissions included in the goal; (2) the unit of measurement (including whether absolute or intensity based); (3) the time horizon by which the target is to be achieved; (4) the baseline time period or emissions; (5) any interim targets; and (6) how the registrant intends to meet the target or goal.³⁸ Additionally, the Proposed Rule seeks “relevant data” indicating the progress made toward the target or goal, a disclosure the registrant would be required to update each fiscal year.³⁹

The breadth of Proposed Item 1506 is problematic; it fails to define with particularity what exactly falls under the definition of “climate-related targets or goals.” For example, like many operators, Targa has a biodiversity statement which sets broad goals for habitat conservation and restoration. These goals are an important part of Targa’s work as a responsible operator, but they are neither quantitative nor specifically designed to address climate risks. However, it would appear that operational goals such as these are swept up in the broadly defined Proposed Item 1506 because the proposal does not distinguish between quantitative and qualitative goals.⁴⁰

Targa has also disclosed plans to pursue low-carbon business opportunities through a newly established business unit but has yet to establish public revenue goals for this. Under the Proposed Rule, per the definition of climate-related goals to include “revenue from low-carbon products,” the Commission would require far more granular disclosures regarding this small segment of Targa’s business than what is currently required for its business as a whole. Notwithstanding that this is unworkable, such disclosures are unlikely to yield material information for investors that is distinct from the company’s overall business outlook.

The Commission should clarify the broadly defined Proposed Item 1506 and narrow the requirements to specifically apply only to public, quantitative targets that address climate-related risk. Narrowing the definition and requirements of this provision of the Proposed Rule in this manner would prevent companies from making empty promises to investors without being unduly burdensome for issuers.

³⁷ *Id.*

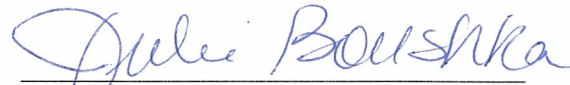
³⁸ *Id.* § 229.1506(b).

³⁹ *Id.* § 229.1506(c).

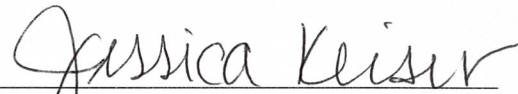
⁴⁰ *Id.* § 229.1506(a)(1) (requiring registrants to disclose “any” targets or goals regarding, e.g., “energy usage, water usage, [or] conservation or ecosystem restoration”).

Targa appreciates the opportunity to comment on the Proposed Rule and we thank the Commission for its consideration. We look forward to continued dialogue.

Respectfully submitted,



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