



**Cleco Corporate
Holdings LLC**

2030 Donahue Ferry Road
P. O. Box 5000
Pineville, LA 71361-5000
318-484-7400
www.cleco.com

June 17, 2022

Vanessa A. Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: The Enhancement and Standardization of Climate-Related Disclosures, File No. S7-10-22

Dear Ms. Countryman:

Thank you for the opportunity to provide comments on the proposed rules. Cleco commends the ongoing efforts of the Commission to enhance and standardize climate-related disclosures.

Cleco Corporate Holdings is a regional energy holding company that conducts its business through two subsidiaries, Cleco Power and Cleco Cajun. Headquartered in Central Louisiana and in business since 1935, Cleco has approximately 1,300 employees. Cleco Power is a regulated electric public utility that owns 9 generating units with a rated capacity of 3,035 megawatts and operates 946 megawatts on behalf of its generation partners. Assets also include 1,384 miles of transmission lines and 12,192 of distribution lines. Cleco Power uses multiple generating sources and multiple fuels to serve approximately 291,000 customers through its retail business and supplies wholesale power in Louisiana and Mississippi. Cleco Cajun is an unregulated utility company that owns 14 generating units with a total rated capacity of 3,379 megawatts and supplies wholesale power and capacity in Arkansas, Louisiana and Texas.

The electric utility sector is one of the most capital-intensive industries in the United States. In 2021, Cleco alone invested more than \$300 million in capital expenditures and continues to make more capital investments to make the energy grid smarter, cleaner, more dynamic, more flexible, and more secure; and to integrate new technologies that benefit both customers and the environment. Consequently, ensuring that investors have the information that they need is vitally important to Cleco. Through these investments, Cleco is helping lead the transition to a lower carbon energy economy.

Cleco is committed to providing clean energy, while keeping reliability and affordability front and center, as always, for the customers and communities it serves. Cleco is leading a clean energy transformation, making significant progress to reduce greenhouse gas (GHG) emissions and provide a clean energy future.

Regarding the proposed climate-related disclosures, it is important that the Commission implement rules that recognize the inherent difficulty of obtaining accurate and timely climate-related information and the resulting lack of comparability that these limitations necessarily produce. Furthermore, this climate-related information should provide investors with an appropriate, and cost-effective level of detail that balances the value of any additional information that is required to be reported against the cost of developing and reporting that information.

The Commission Should Reconsider Inclusion of Scope 3 Emissions or Include Boundaries on the Type of Emissions That Must Be Reported

Cleco supports the Commission's efforts to enhance and standardize climate-related disclosures and believes the proposed qualitative disclosures are a big step forward in providing investors important information in a standardized fashion. However, Cleco believes the Commission extends too far in its current proposal regarding the inclusion of Scope 3 emissions in Registrants' SEC filings. Cleco strongly recommends the Commission reconsider or include specific guidance on which Scope 3 emissions should be included in order to ensure that the resulting disclosure is meaningful. While Scope 3 emissions can provide some helpful general information, such emissions are very difficult

to quantify accurately and would need to include boundaries to be useful. Furthermore, for most electric utilities, Scope 3 emissions represent only a fraction of their total emissions. If the SEC decides to require Scope 3 disclosures, Cleco believes that the “value chain” be defined as only the immediate suppliers to, and immediate customers of, a Registrant.

I. SCOPE 3 EMISSIONS ARE DIFFICULT TO QUANTIFY ACCURATELY

A. *Reliable Information is not Available*

Scope 3 emissions are difficult to quantify, depending almost entirely on estimates. This primarily is because Scope 3 emissions include emissions of both upstream and downstream participants in a Registrant’s “value chain” – entities over which a Registrant has little, if any, control.

The lack of reliable information on Scope 3 emissions in a Registrant’s value chain assures that the reported metrics will be dependent upon estimates and that they will not reflect the reliability that the users of SEC filed information expect. Furthermore, the proposed rule does not differentiate Scope 3 metrics that are more directly relevant to Registrants versus other Scope 3 metrics that have little or no bearing on Registrants. While Scope 3 emissions data can provide some helpful general information, it should not be required in Registrants’ SEC filings since such data is not likely to provide useful information to investors or Registrants.

B. *Value Chain Boundaries are Unclear*

The current guidance does not define the boundaries of the value chain. The current guidance clearly contemplates a value chain that goes beyond initial customers, and it does not specify the end of the value chain. This makes accurate and consistent estimation of Scope 3 emissions extremely difficult.

C. *Implementation Date Should be Delayed*

Cleco believes the Commission is optimistic and aggressive in proposing an implementation date of 2023 for the quantitative Form 10-K disclosures. Registrants that do not currently disclose the necessary information likely will have to begin gathering data immediately after the Commission publishes the final rule, and it is highly unlikely that information for earlier years will be reasonably available. Moreover, many, if not all, Registrants will need to implement changes to their charts of accounts, update their internal controls over financial reporting and disclosure controls, implement systems for capturing the necessary information, and develop the necessary skills needed to analyze the information and accurately produce the metrics that the SEC requires. These are costly and time-consuming tasks, and, if required to be completed on an accelerated basis, will result in additional, unnecessary costs as the resources for implementation are limited. Cleco suggests that the Commission delay implementation of the final rule until two fiscal years after publication of the final rule. Finally, in the initial year of implementation, Cleco recommends that all such disclosures be required only on a prospective basis (that is, for the year of implementation only and not on a comparable basis for prior years for which the necessary detail and internal controls either did not exist or would not be able to be recreated).

D. *Recommendations*

Cleco recommends that the Commission reconsider requiring the inclusion of Scope 3 disclosures or include boundaries on the information to be disclosed. The framework for Scope 3 disclosures has not yet matured to the point that Registrants can provide the proposed disclosure with a level of consistency and accuracy with what the SEC requires. Without some boundaries, the resulting disclosures will neither be comparable or reliable.

If the SEC decides to require Scope 3 disclosures, Cleco believes that it is important that the “value chain” be defined as only the immediate suppliers to, and immediate customers of, a Registrant. Required implementation should be delayed until two fiscal years after publication of the final rule, and such disclosures should be required prospectively only.

II. AUDITED FOOTNOTE REQUIREMENT

The requirement for an audited footnote containing “financial impact metrics” should not be included. For Cleco, a utility with potentially broad environmental consequences, the preparation and inclusion of the proposed information in an audited footnote will be challenging and costly to implement – including the accounting and other changes necessary to produce the required information and the significant audit cost – and the incremental benefit of doing so, compared with an alternative presentation of the information most relevant to the proposed rule’s purpose, is unclear.

A. Large Volume of Information

As a threshold matter, it is important that the Commission recognize that information related to the disclosure items contained in the proposed rule, particularly the information related to severe weather events, other natural conditions, and transition activities, affects almost every line item in the financial statements of a utility.

Over the last several years, there have been substantial hurricanes every year, so, focusing just on hurricanes as an example, the proposed rule could require the footnote disclosure to include financial impact metrics and context information for each year presented for each of the line items, resulting in a footnote several times larger than the actual financial statements themselves given how much information would be needed with respect to each line item.

While the example above relates to hurricanes, the impact of other severe weather events—such as heat waves and unusual freeze conditions—similarly would impact numerous line items as well.

It does not seem reasonable to conclude that information at this level of detail would be beneficial to investors, as most of it would be immaterial and, given how unique each utility and weather event is, lack any meaningful comparability to similar information provided by other Registrants. Any nominal benefits from such disclosure would be far outweighed by the cost of preparation and the lack of clarity that it would cause to other, more important information in the financial statements. Furthermore, the unintended consequence of this rule is that so much immaterial information would be added to the audited financials that investors will not be able to differentiate material from immaterial information in assessing the financial status of the Registrant.

B. The 1% Threshold for Disclosure Generally is Immaterial

The 1% threshold contained in the proposed rule requires that components within each line item be aggregated to determine whether the “positive impacts” and “negative impacts” exceed the 1% threshold. There is no minimum amount with respect to the individual components that have to be aggregated, meaning that even the smallest underlying components have to be identified as being attendant to positive or negative impacts and, as a practical matter so that the disclosure can be meaningful, further identified in a manner so that they can be aggregated with similar underlying items. For even a modest-sized utility, this would require that these identifications be performed for hundreds of thousands of individual items every year.

Cleco does not have a chart of accounts that is designed to make these differentiations. Cleco uses the FERC Uniform System of Accounts, and while we can create subaccounts, we have never done so at this level, nor have we ever been required to do so for items that are clearly immaterial. In addition, Cleco does not have systems – at a central office, at warehouses, at dispatch centers, at line crews, or otherwise – that currently enable staff to identify a particular piece of equipment or service as being attributable to a “severe weather event” or a “transition activity.” A system that would enable that level of tracking would be extremely costly to implement and maintain.

C. The 1% Threshold for Disclosure Is Not Consistent with most Definitions of Materiality

It is rare that components that do not exceed 1% of a financial statement line item will be material. Moreover, given the wide range of size for different line items, one percent of the largest line item, still may not be material, and one percent of smaller line items likely are meaninglessly insignificant amounts. For example, a utility with “other revenues” of \$10 million would be obligated to identify items that, taken together, would aggregate \$100,000 or more.

While we do not subscribe to there being a single numeric threshold for materiality, there clearly is a level below which items simply are not material to investors, although they may be interesting to the curious. One percent has not typically been the threshold for quantitative financial statement line-item materiality, especially since any particular line item itself might not be material for a given company.

If the footnote requirement is contained in the final rule, the one percent threshold needs to be replaced with a traditional materiality concept, or at least a concept that has some level of relevance to investors.

D. Internal Controls

Cleco is required to maintain a system of internal controls designed to provide reasonable assurance that the financial data presented in its financial statements is materially correct. This system of controls often involves many individual controls reflected in documentation of detailed processes and procedures. These controls uniformly have been designed around materiality thresholds established relative to the nature of the controls and the size of the business consistent with the longstanding approach to materiality discussed above.

Cleco is unaware of any utility that has internal controls designed to capture individual components of line items that might aggregate to 1% or more of each line-item amount. As a result, recalibrating our system of internal controls to support the proposed footnote disclosure would require a comprehensive update of substantially all of our internal controls and the imposition of new processes and procedures at an extremely high cost that far exceeds any potential benefit to investors.

E. When is an Activity a Transition Activity?

While some activities are more clearly “transition activities,” many do not lend themselves to ready categorization. Here are some examples:

- Over the last five years, many utilities have elected to retire existing coal-fired generating facilities and replace those facilities with natural gas-fired generating facilities. While these actions had the benefit of GHG emissions reductions, they also have other commercial motivations and have resulted in a reduction in costs to customers.
- The cost of undergrounding power lines is sufficiently high that utilities generally do not do it primarily for climate-related reasons but rather for customer-service related reasons, even though there are climate-related ancillary benefits.

In each of these examples, there was a business reason other than GHG mitigation to make capital investments. The proposed rule does not provide any guidance as to how activities that serve more than one purpose should be categorized.

The proposed rule is ambiguous with respect to the categorization of activities as “transition activities.” “Transition activities” should be limited to (a) activities with respect to which reducing GHG emissions is a significant purpose and that are material, and (b) activities that materially reduce GHG emissions.

F. Recommendations

We believe that it is reasonable to ask Registrants to provide unaudited good-faith estimates of the aggregated information called for by the proposed rule using a traditional measurement of materiality. We do not believe that it is reasonable to require either inclusion of this information in an audited footnote or a level of detail in any such disclosures that is far below what investors or Registrants would consider material in accordance with law and historic practice.

Rather than imposing an untested definition of “severe weather event,” the SEC should base the disclosure on “unusual climate events,” and initially should allow Registrants to define what they consider typical climate events for the geographical areas where they operate and to provide good-faith estimates of the material revenue, expense, balance sheet, and cash flow impacts that they attribute to weather events that they consider unusual. The Commission should not require disclosure by line item or disclosure of immaterial impacts. The Commission should also encourage Registrants to work with their trade associations and others to develop common standards for their respective industries, and we would expect there to be significant comparability within a relatively short period of time given that Registrants will appreciate the benefit of uniformity.

We disagree with the implicit assumption of this aspect of the proposed rule that the information needs to be audited to be valid and reliable. There is no evidence that is the case. Registrants routinely include substantial amounts of required disclosure information in filings with the Commission that are not audited and for which absence of an assurance opinion has not been a problem. Rather, the Commission should rely on the commitment of Registrants to provide accurate information to investors.

III. CURRENT REPORTING PRACTICES ARE RELIABLE

Today, some of the largest Registrants with meaningful GHG emissions from fixed sources report those emissions in some form to the EPA as well as to other federal and state regulatory bodies. These emissions account for at least 95% of vertically integrated electric utility emissions and these reporting requirements are pursuant to operating permits that are typically required to be renewed on a regular basis. Utilities as well are subject to GHG air emissions reporting, generally to the EPA, but also in some instances to state regulators as part of their integrated resource planning processes or otherwise. Additionally, larger Registrants voluntarily produce annual reports on emissions that are publicly available on their websites or elsewhere.

It does not seem reasonable to require additional expense to verify information that is already verified by the federal government. The current quality and quantity of published information reflects the commitment by Registrants to report information accurately.

A. Recommendations

We believe that the Commission should rely on the commitment of Registrants to provide accurate information to investors and the other already-existing reporting measures. There is nothing particularly unique about the proposed disclosures as compared to numerous existing disclosures on other topics that would justify imposing any additional requirements.

CONCLUSION

As noted above, we commend the Commission for its efforts to enhance climate-related disclosure and appreciate the opportunity to comment on the proposals. We believe, however, that some of the most burdensome aspects of the incremental disclosure do not produce benefits that outweigh the costs of the disclosure. As a result, we encourage the Commission to pare back the disclosure requirements as discussed above. We believe that with these changes the new disclosure requirements will be much better balanced with the burden that they impose.

Respectfully submitted,

/s/ Robbie Laborde
Robbie Laborde
Chief Operations & Sustainability Officer
Cleco Corporate Holdings

/s/ Kristin Guillory
Kristin Guillory
Chief Financial Officer
Cleco Corporate Holdings