David A. Inchausti
Vice President and Controller

June 17, 2022

Via E-mail to rule-comments@sec.gov

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

Re: Proposing Release – *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (File No. S7-10-22)

Dear Ms. Countryman:

Chevron Corporation ("Chevron", "the Company", or "we") appreciates the opportunity to provide comments on the rule proposal by the U.S. Securities and Exchange Commission (the "Commission" or "SEC") entitled *The Enhancement and Standardization of Climate-Related Disclosures for Investors* (the "Proposal").

Chevron is one of the world's leading integrated energy companies. Through its subsidiaries that conduct business worldwide, the Company is involved in virtually every facet of the energy industry.

Chevron believes in providing our stakeholders with climate-related information that is consistent, comparable, reliable and useful. To provide information on Environmental, Social, and Governance ("ESG") matters and share our progress with a broad set of stakeholders, Chevron has issued multiple and detailed voluntary climate reports and sustainability reports, leveraging leading frameworks and standards.

Our comments on selected topics covered in the Proposal are below. Throughout our letter, we propose alternative solutions to address flaws in the Proposal. We request that the Commission revise the Proposal to achieve a more tailored and workable framework.[1]

Leveraging the TCFD Framework

We share the SEC's recognition of the increasingly important role that the framework developed by the Task Force on Climate-Related Financial Disclosures ("TCFD") has played in enabling

[1] Because of the breadth of the Proposal, we have not attempted to provide comprehensive comments, but have focused on areas of particular concern in this letter.

companies to communicate effectively about climate-related matters.[2] Chevron believes that the TCFD framework and its four pillars – governance, strategy, risk management, and metrics and targets – are useful in the development of principles-based climate-related reporting.[3] Indeed, Chevron was one of the first companies to issue a voluntary TCFD-aligned report.[4] In October 2021, Chevron published its fourth Climate Change Resilience Report, reporting our actions aligned to the recommendations of the TCFD.[5] The flexibility offered by the TCFD framework in its application across businesses and jurisdictions has been instrumental to its gaining strong traction among companies and investors. We see opportunities for the SEC to provide similar flexibility for mandatory reporting, as further discussed below.

Leveraging the GHG Protocol

The SEC has noted the importance of leveraging the established greenhouse gas ("GHG") emissions reporting framework, namely the World Resources Institute/World Business Council for Sustainable Development GHG Protocol ("GHG Protocol"), for GHG emissions disclosure requirements. First published over 20 years ago and comprehensive in its scope, the GHG Protocol has become the most widely used standardized framework for GHG emissions measurement and reporting around the world, making it a logical basis for GHG emissions disclosure requirements and in line with the SEC's stated goal to enhance consistency and comparability of GHG emissions information. Chevron has voluntarily reported GHG emissions (Scope 1, 2 and category 11 of Scope 3) associated with its operations, improving and updating our emissions reporting over time in line with the build out of the GHG Protocol.

We believe it is critical to align the Proposal's use of the GHG Protocol with the Proposal's approach to organizational boundaries, as the GHG Protocol allows for a company's selection of organizational boundaries that best reflect the company's business activities and GHG performance. To accomplish this, we encourage the SEC to revise the Proposal to allow for the equity share approach, pursuant to which "a company accounts for GHG emissions from operations according to its share of equity in the operation," which "reflects economic interest, which is the extent of rights a company has to the risks and rewards flowing from an operation."[6] Per the GHG Protocol, "the equity share and financial control approaches result in closer alignment between GHG accounting and financial accounting."[7]

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[2] Chevron Corp., *Letter Following Request for Public Input on Climate Change Disclosures*, at 1 (June 11, 2021), available at https://www.sec.gov/comments/climate-disclosure/cll12-8906904-244215.pdf.
[3] *Id.*
[4] Chevron Corp., *Climate Change Resilience: A Framework for Decision Making* (Mar. 2018), available at https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf.
[5] Chevron Corp., *Climate Change Resilience: Advancing a Lower Carbon Future* (Oct. 2021), available at https://www.chevron.com/-/media/chevron/sustainability/documents/climate-change-resilience-report.pdf.
[6] World Resources Institute & World Business Council for Sustainable Development, *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, at 17 (2004; revised ed.). The GHG Protocol also allows accounting of emissions using the control approach, pursuant to which "a company accounts for 100 percent of the GHG emissions from operations over which it has control[,] [but] [. . .] does not account for GHG emissions from operations in which it owns an interest but has no control." *Id.*
[7] *Id.*, at 21.

In the oil and gas industry, an equity share approach aligns with industry best practice, regulatory scheme design, and how a company discloses its production. For example, joint venture ("JV") agreements are common in our industry. Under a JV arrangement in which two or more companies participate and the JV operates as a separate company, neither owner company would report the JV emissions if using the GHG Protocol's control approach to organizational boundaries (financial or operational). However, under equity share reporting guidelines, each owner company/JV participant would report its proportional equity share of emissions.[8] In another example, through production sharing agreements, JV partners in the oil and gas industry typically take responsibility for GHG emissions associated with royalty barrels[9] even though they do not receive the entire economic benefit associated with those barrels.[10] While we consider the equity share method best suited for our Company specifically, and the oil and gas industry more generally, we believe that both equity share and control methods should be permitted, with filers disclosing which method is being employed. By deviating from the organizational boundaries approaches allowed for in the GHG Protocol, the Proposal would require companies to re-evaluate their more commonly used methodologies in reporting GHG emissions data, which could also impact baseline year data that was used in establishing publicly announced targets and goals. Further, to communicate GHG intensity of energy produced, we believe any GHG intensity disclosure requirements should be based on an equity products-sold basis. We believe that maintaining alignment with the GHG Protocol and leveraging industry-specific guidelines[11] are necessary for the achievement of the SEC's goal to enhance the consistency and comparability of GHG emissions disclosure, and such frameworks should appropriately evolve over time toward greater consistency with financial reporting approaches.

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[8] *See* IPIECA, et al., *Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions*, at 3-2 – 3-6 (2011; 2d ed.), available at https://www.ipieca.org/resources/good-practice/petroleum-industry-guidelines-for-reporting-greenhouse-gas-emissions-2nd-edition (hereinafter "Petroleum Industry Guidelines for Reporting").

[9] Royalty barrels are barrels produced by an operator that reflect the landowner's share of production based on the landowner's royalty interest. *See, e.g.*, *In re Lease Oil Antitrust Litig. (No. II)*, 186 F.R.D. 403, 411 (S.D. Tex. 1999) ("On a particular day, the operator, an integrated oil company, produces 8 barrels on the lease and transports it to its refinery. The [. . .] royalty owner with a 1/8 interest in the production, is entitled to one barrel on this day.").

[10] *See* IPIECA, et al., *supra* note 8, at 3-8.

[11] General and industry-specific reporting guidelines include International Organization for Standardization, *ISO 14064-1, Greenhouse gases – Part 1: Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals* (2018; 2d ed.) available at https://www.iso.org/standard/66453 html; IPIECA & American Petroleum Institute, *Estimating Petroleum Industry Value Chain (Scope 3) Greenhouse Gas Emissions* (2016), available at https://www.ipieca.org/resources/good-practice/estimating-petroleum-industry-value-chain-scope-3-greenhouse-gas-emissions-overview-of-methodologies/; IPIECA & American Petroleum Institute, *Addressing Uncertainty in Oil and Natural Gas Industry Greenhouse Gas Inventories. Technical Considerations and Calculation Methodologies* (2015), available at https://www.ipieca.org/resources/good-practice/addressing-uncertainty-in-oil-and-natural-gas-industry-greenhouse-gas-inventories-technical-considerations-and-calculation-methods/; IPIECA, et al., *supra* note 8; World Resources Institute & World Business Council for Sustainable Development, *supra* note 6.

Disclosure of Scope 1, 2 and 3 GHG Emissions and Related Phase-in Periods

We support well-designed disclosure of Scope 1, 2 and 3 GHG emissions to provide comparable and relevant data, as described in Chevron's most recent voluntary Climate Change Resilience Report.[12]

In connection with the Proposal's provisions that could require disclosure of these metrics, we believe it is important for the Commission to recognize the substantial effort and uncertainty that many companies will face to implement or expand GHG reporting and related attestation to provide this disclosure, including availability of attestation providers given the substantial increase in demand for services. Accordingly, we support the SEC's inclusion of certain measures in the Proposal to facilitate compliance, such as phase-in periods for Scope 1 and 2 attestation requirements and Scope 3 disclosure requirements, although we believe that the proposed phase-in periods should be extended.

Chevron supports reporting of the seven individual GHGs aligned with the GHG and Kyoto Protocols for Scope 1 and 2. We do not believe a similar application for Scope 3 would be appropriate. Most Scope 3 calculations are currently based on the use of estimated third-party data whereby an emissions or activity factor is multiplied by an emission-generating activity. Multiple databases are used to source emission factors, and those datasets are generally limited to estimates for carbon dioxide (CO_2), on an aggregated carbon dioxide equivalent (CO_2e) basis or estimates for only the main GHGs (CO_2, methane, and nitrous oxide). Consistent with the general calculation methods for Scope 3, we recommend the SEC allow for a single CO_2e approach instead of individual GHGs for Scope 3.

Because of the complexities and challenges in calculating all categories of Scope 3 emissions, Chevron believes that companies required to include Scope 3 emissions under the proposed rules would benefit from at least an additional year of preparation of such information for inclusion in SEC reports, and request that the Commission adjust the compliance date accordingly. We believe allowing at least an additional year for preparation will have a significant positive impact on the quality and consistency of the Scope 3 emissions data across the full spectrum of companies, in line with the SEC's stated goal.

Attestation Requirements

We support flexibility on acceptable attestation standards and specifically support inclusion of ISO 14064-3, noting that this GHG-specific attestation standard is the most predominantly used in the United States. Chevron anticipates the increased demand on providers to comply with attestation requirements could create a resource-constrained environment in the near term. We support the Proposal's flexibility in permitting companies to engage specialists to do this work. GHG reporting has become a specialty reporting topic, with firms dedicated to providing this assurance for more than two decades, since establishment of the GHG Protocol, the Environmental Protection Agency ("EPA") GHG Reporting Program, and other reporting programs like California's Regulation for Mandatory Reporting of Greenhouse Gas Emissions.

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[12] *See* Chevron Corp., *supra* note 5, at 43.

Chevron believes that flexibility on both acceptable attestation standards and attestation providers is necessary for the successful implementation of these provisions.

Measures to Address Liability

Chevron believes it crucial that, at a minimum, safe harbor protections from Securities Act of 1933 ("Securities Act") Sections 11, 12, and 17(a), and Securities Exchange Act of 1934 ("Exchange Act") Sections 10(b) and 18, be afforded for certain proposed disclosure requirements, including in connection with forward-looking information and disclosure of GHG emissions. If the Proposal is adopted as proposed, the disclosures that would be required are novel, highly complex and relate to topics that are continuously evolving. In contrast to information reported under traditional SEC reporting requirements, calculation of climate-related information pursuant to the reporting guidelines set forth within the Proposal is relatively new. Additionally, it is not uncommon for companies to need to update their GHG emissions information from year to year for reasons outside of a company's control. Guidance and methodologies evolve over time, and information received from third parties on which a company relies for some GHG emissions information can be updated as better information becomes available. For example, we rely on the 100-year global warming potential ("GWP") values from the Intergovernmental Panel on Climate Change ("IPCC") to convert GHGs to their CO_2e values for ease of comparison and summation of total GHGs. As the IPCC updates its GWP values and mandatory reporting programs update their direction on which report to use, we accordingly update our calculations prospectively beginning with the current year inventory. To illustrate, beginning in the 2020-2021 reporting year, Australia adopted amendments increasing the GWP for methane from 25 to 28 and decreasing the GWP for nitrous oxide from 298 to 265 for required reporting under the National Greenhouse and Energy Reporting Regulations 2008 and the National Greenhouse and Energy Reporting (Measurement) Determination 2008, and we accordingly updated our calculations for reporting in Australia from that period forward.

Considering the nascent nature of the GHG reporting contemplated by the Proposal compared to traditional SEC reporting requirements, Chevron urges the Commission to provide stronger safe harbor protection from liability for all scopes of GHG emissions disclosure. As to the standards for a stronger safe harbor, we request that the Commission adopt the kind of protection provided by the safe harbor for forward-looking information in the Private Securities Litigation Reform Act ("PSLRA").[13] In comparable circumstances, when the SEC imposed reporting requirements regarding quantitative and qualitative disclosures about market risk (including "Value at Risk" reporting and sensitivity analyses), the Commission recognized the challenges companies would face in preparing this novel information and specifically provided PSLRA safe-harbor protection for it.[14] Preparing GHG emissions information is similarly complex because of the new reporting guidelines contemplated by the Proposal, the evolving nature of this information, the infeasibility of direct measurement as a primary data source for many emission sources, and the estimations

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[13] *See* Securities Act of 1933, 15 U.S.C § 77z-2 (2010), and Securities Exchange Act of 1934, 15 U.S.C. § 78u-5 (1995).

[14] *See* Item 305(d) of Regulation S-K (17 C.F.R. pt. 229). This safe harbor specifically defines information required by the rule to be considered to be "forward-looking statements" for purposes of the safe harbor and provides that the requirement to provide "meaningful cautionary language" will be satisfied if a company satisfies the requirements of the rule.

needed to prepare the information. Under an enhanced safe harbor equivalent to that of the PSLRA, if GHG emissions data is labeled as such, and is accompanied by meaningful cautionary language regarding why the amounts may not be accurate (*e.g.*, evolving standards, third-party sources of necessary information, estimates required, absence of direct measurement as a data source for some types of emissions like fugitives), the GHG emissions disclosure would qualify for the safe harbor. We also request that the SEC confirm that any required disclosures regarding scenario analyses, carbon pricing and transition plans, including relevant targets, metrics and goals, be deemed "forward-looking statements" in line with the nature of their disclosures and that they qualify for the PSLRA safe harbor protection.

To provide for an appropriate level of liability under the Exchange Act, we note that there continues to be improvement in the quality of GHG emissions data and other climate-related information; yet, it remains evolving. As explained below with regard to the timing and placement of proposed climate-related disclosures generally, we believe that GHG emissions and other climate-related information proposed to be required should be treated as "furnished" instead of "filed" for purposes of liability under the Exchange Act, and not automatically incorporated by reference into Securities Act registration statements (where strict liability applies).

Regulation S-X Amendment

Chevron supports providing decision-useful information to investors that contributes to their understanding of our business, operations, and financial performance. However, we believe strongly that the new climate-related disclosure article proposed to be added to Regulation S-X would be counterproductive to the SEC's stated goal and unworkable and thus should not be included in any final rulemaking. For example, as proposed:

> (1) registrants would be required to opine about correlations between long-term trends of climate-related impacts and causation in the short-term financial reporting cycle; and
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> (2) registrants would need to make extremely complex judgments to attempt to distinguish climate-related conditions and events and transition activities from normal business operations and other market forces, and then once a climate-related condition, event, or activity is identified, registrants would need to determine whether financial statement line item impacts are attributable in whole or only in part to the climate-related condition, event, or activity; thus, consistency and comparability among registrants would be unattainable given the number of interpretation issues each company would need to address, as well as the reasonable differences in interpretation across companies.

To comply with the proposed new article to Regulation S-X, significant speculation would be required not only to identify items for disclosure, but also to conduct novel and untested variance analyses while correlating matters to uncertain and indeterminate causes. Oil and gas companies experience substantial commodity price volatility in the normal course of business due to many factors. This price volatility contributes to variance in individual line items in financial statements. For example, oil prices ranged from approximately $10 to $124 per barrel in the past five years.[15] Ringfencing impacts on crude oil prices due to potential climate-related trends and impacts that are normally deemed to be medium- to long-term in nature, especially in the short-term financial reporting cycle, is not possible. Trends and their potential impacts – positive or negative to financial statement line items – often become evident only after they are observed and studied with significant effort and rigor over a medium- to long-term period.

To illustrate the difficulties of attribution of costs or revenues to transition activities, we offer the example of Chevron's decision to minimize flaring of associated gas produced alongside oil in our Permian Basin operations. Many energy producers flare natural gas when gathering and transportation infrastructure is not in place to move the gas to the market. While flaring enables oil to be produced, it also causes a valuable energy source to be wasted and produces CO_2 and other GHG emissions. In the Permian Basin, Chevron commits the resources and planning necessary to ensure that natural gas pipelines are available to capture and transport associated gas before a well is brought online. This minimizes the need to flare during the early phase of production when gas production is at its peak. These decisions and practices result in a decrease of GHGs emitted, an increase in upfront capital costs, and an increase in revenue from the sale of the natural gas over the life of the asset. We lack a viable mechanism to reliably and accurately isolate the impact of climate-related risks and opportunities on the decreased emissions, upfront capital costs and increased revenue. Yet, the Proposal would require a registrant in our industry to determine whether, for any specific line item (such as revenue arising from the sale of the natural gas), all or a portion of the revenue in a specific period is associated with climate-related impacts, or if it is a normal part of the company's operations. Consistent with this illustration, the attribution of each financial line item impact or the portion of the financial line item impact arising from normal business decisions versus climate-related considerations would require significant conjecture and give rise to interpretation differences that would vary across companies.

Some may argue or suggest that acute weather events may be an example of items that could be easily identifiable, and thus, whose impact could be assessed and disclosed consistently, but this is incorrect. According to the IPCC's reporting of generally accepted climate science, not all types of weather events can be reliably attributed to climate change even if climate change is forecasted to increase the likelihood of more frequent acute and chronic changes in weather over time.[16] Accordingly, the exercise of attributing acute weather events to financial statement line item impacts would require significant conjecture and interpretive policy decisions dependent

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[15] WTI crude prices ($/BBL) from January 2017 to May 2022 sourced from Platts' daily assessment, excluding the one-day anomaly where WTI prices went negative.

[16] *See* P. Arias, et al., *Technical Summary*, CLIMATE CHANGE 2021: THE PHYSICAL SCIENCE BASIS, at 108 (2021), available at https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_TS.pdf (observing that "many highly impactful extreme weather events have not been studied in the event attribution framework, particularly in the developing world where studies are generally lacking. This is due to various reasons, including the lack of observational data, lack of reliable climate models, and lack of scientific capacity."). In its *Summary for Policymakers*, the IPCC also cautions that "[n]atural drivers and internal variability will modulate human-caused changes, especially at regional scales and in the near term, with little effect on centennial global warming. These modulations are important to consider in planning for the full range of possible changes." R. Allan, et al., *Summary for Policymakers*, CLIMATE CHANGE 2021: THE PHYSICAL SCIENCE BASIS, at 23 (2021), available at https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf.

upon each company's implementation approach, thereby resulting in interpretation differences across companies.

With respect to the one percent threshold proposed by the Commission for disclosure of financial impact metrics by financial statement line item,[17] we believe that this threshold is unworkable. One percent has never been, and is not, an appropriate threshold when quantitatively evaluating materiality for a financial statement line item; additionally, any individual line item may not be material for a given company. Applying a one percent threshold to every financial statement line item would require companies to collect data at a threshold much lower than one percent to demonstrate completeness and evaluate whether the threshold is met. This exercise would lead to excessive costs in collecting a substantial amount of data that is immaterial to investors. Furthermore, there is no other financial statement disclosure requirement under Regulation S-X that requires any similar disclosure for any other specific type of risk. Requiring such disclosure for climate-related conditions and events would promote climate to be the single-most significant financial risk factor for all registrants and conflicts with how companies look at their own financial results and make materiality determinations.

Given the level of complexity and conjecture involved in any such analyses, combined with the proposed, unworkable disclosure threshold level of one percent, we do not believe the resulting metrics would meet the SEC's stated aim of consistent and comparable climate-related information, and we further believe that much of the disclosure would include immaterial information for investors. We currently estimate operational and financial impacts of events and assess them for potential disclosure, and if considered material,[18] we include them in SEC reports, such as within Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations. Creating a separate climate-related disclosure standard that raises interpretation issues and that diverges from longstanding materiality standards[19] would not result in disclosure of reliable, comparable and decision-useful climate-related information. For the foregoing reasons, we believe the Regulation S-X climate-related disclosure in the Proposal is unworkable and not in line with the SEC's stated objectives.

Timing and Placement of Climate-Related Disclosures

We recommend that the Commission provide for reporting on climate-related information in a separate report due 150 days or more following year end, and not in the Form 10-K. Additional time would benefit investors by enhancing the quality of companies' disclosures and avoiding potential restatements due to the mandatory, premature publication of data. While the Proposal

[17] For example, the financial impact metric disclosure requirements in proposed Rules 14-02(c), (d), and (i) would require a registrant to disclose the financial impacts of severe weather events, other natural conditions, transition activities, and identified climate-related risks on the consolidated financial statements included in the relevant filing unless their aggregated impact is less than one percent of the total line item for the relevant fiscal year.
[18] We refer to the traditional materiality standard anchored in *Basic, Inc. v. Levinson*, 485 U.S. 224, 232 (1988).
[19] *See* SEC Interpretation, Management's Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures at 22429 (Release Nos. 33-6835; 34-26831; IC-16961; FR-36) (May 18, 1989), available at https://www.sec.gov/rules/interp/33-6835.htm ("Required disclosure is based on currently known trends, event and uncertainties that are reasonably expected to have material effects. . . . In contrast, optional forward-looking disclosure involves anticipating a future trend or event or anticipating a less predictable impact of a known event, trend or uncertainty.").

calls for extensive, detailed, climate-related disclosures in a new, separate climate-related section of the Form 10-K, preparation of these disclosures for inclusion in the Form 10-K does not align with data availability or common existing GHG emissions reporting deadlines.

Existing GHG emissions reporting deadlines, which come after the Form 10-K reporting deadline, and under much more limited boundaries,[20] include: (1) the EPA's Greenhouse Gas Reporting Program, which requires annual reports covering emissions from the prior calendar year to be submitted by March 31st of each year, and (2) the California Air Resource Board's Regulation for the Mandatory Reporting of Greenhouse Gas Emissions, which requires submittal of verified reports for the previous year in August. These later deadlines recognize the data-availability needs for accurate reporting of GHG emissions, such as utility bill and fuel purchase data used to calculate emissions, and activity or emissions data provided by contractors and/or JV partners and/or other third parties like suppliers. Additionally, as it relates to the SEC's aim to provide reliable climate-related information with attestation, the proposed timeline would result in serious practical and logistical challenges to make the materiality threshold determinations necessary for both limited and reasonable assurance.

The proposed timeline also does not allow for adequate time to conduct activities like scenario analysis, due to the release dates of the most up-to-date third-party scenarios. For example, the International Energy Agency's World Energy Outlook, which contains scenarios commonly used in the energy industry, is released in the fourth quarter of each year. Chevron believes providing adequate time for companies to conduct robust analyses and prepare the related disclosure based upon such scenarios is critical to achievement of the SEC's stated goals.[21]

In addition, as noted above, we believe that the new climate report should be treated as "furnished" instead of "filed" for purposes of liability under the Exchange Act, and not automatically incorporated by reference into Securities Act registration statements (where strict liability applies). This approach would appropriately recognize the novel and complex nature of the proposed disclosure requirements – including, among other items, GHG emissions data, scenario planning, targets and goals, and the detailed nature of many of the proposed requirements – which go far beyond information that has been required in SEC filed reports. In these circumstances, treating the information as furnished would provide appropriate liability protection while continuing to make the information widely available via the SEC's EDGAR system.

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[20] Mandatory GHG reporting programs are typically limited to operated assets with emissions that exceed a minimum annual threshold. *See, e.g.,* 40 C.F.R. § 98.
[21] For Chevron's recommendations regarding disclosure of scenario analysis in connection with the Proposal, please see the section of this letter, below, entitled, "*Alternatives to Select Implementation Guidelines—Scenario Analysis*."

Alternatives to Select Implementation Guidelines

Chevron sees the benefits of disclosure requirements that leverage the TCFD framework and the GHG Protocol within a framework of materiality, and we believe that alternative approaches to the specific disclosure proposals could more effectively accomplish the SEC's stated goal of consistent, comparable, reliable and decision-useful climate-related disclosures. While certain aspects of the proposed requirements – such as the proposed climate-related risks disclosures – begin with a concept that disclosure on the topic is required based on materiality, the ensuing disclosure requirements on the topic are highly prescriptive and appear to depart from long-established concepts of materiality. We have concerns that the disclosure requirements of the Proposal, if adopted, potentially would lead to false precision that could be misleading, and to outputs that we do not believe would be decision-useful to investors. Notably, the proposed disclosure requirements are more prescriptive and detailed than other SEC disclosure requirements, including those governing the core topics of MD&A and Description of Business, and appear to call for potentially immaterial information in many cases. Below, we suggest alternatives that seek to meet the SEC's stated goal.

Climate-related risks: We recommend that the SEC refocus the climate-related risks disclosure requirements in proposed Item 1502 aligned with TCFD's high-level strategy recommendations by allowing a company flexibility in providing additional detail when characterizing its material climate-related risks and actual or potential material impacts on the company's business, strategy and financial planning. Given the multiple uncertainties and variability in modeling potential climate-related risks over different time horizons,[22] especially at the localized level, Chevron has concerns that requiring projections of potential impacts on financial statements will not provide reliable, verifiable, and objective information for investors.

The Proposal includes prescriptive requirements to provide specific details related to a broad set of potential climate-related risks. The detail required in this proposed disclosure – including, for example, requirements for disclosure of specific locations of properties at physical risk (with location defined as a ZIP code or other similar postal code) – would result in disclosure of extensive information that we do not believe would be decision-useful to investors. At the same time, this level of detail could result in unintended negative consequences, including security concerns, competitive harm and conflicts with contractual obligations for a company.

To the extent the SEC believes that more detailed information about physical risks is needed, we recommend that such a rule require disclosure, if material, of the percentage of the company's portfolio materially impacted by the risk instead of the detailed information included in the

[22] For example, in its recently released Assessment Sixth Report, Working Group 1 of the IPCC warns that while its CMIP6 models are "able to reproduce most aspects of the spatial structure and variance of the El Niño-Southern Oscillation (ENSO) and Indian Ocean Basin and Dipole modes of variability . . . , some underlying processes are still poorly represented." P. Arias, et al., *supra* note 16, at 49. The IPCC further acknowledges that, "[r]egional climate changes can be moderated or amplified by regional forcing from land-use and land-cover changes or from aerosol concentrations and other short-lived climate forcers," and finds, with a very high confidence, that "the difference in observed warming trends between cities and their surroundings can partly be attributed to urbanization." *Id.* At 52*; see also* R. Allan, et al., *supra* note 16.

Proposal. Such an alternative would help to avoid security concerns, competitive harm and conflicts with contractual obligations.

Targets and Goals: The Proposal's requirement to provide detailed disclosures applicable to all climate-related targets and goals that a company has set may have the unintended consequence of significantly limiting a company's willingness to set new internal and external targets and goals to advance its environmental performance. Such chilling effect would be harmful to companies, investors and the broader goal of addressing climate change. For example, a registrant may be unwilling to set a lifecycle carbon footprint reduction target on a minor product that generates insignificant revenue due to the potential for such a target to be deemed climate-related, and therefore subject to the extensive disclosure obligations proposed in Item 1506. An alternative that could further the SEC's goals and not result in these potential negative consequences would be to limit the disclosure requirements related to targets and goals to a company's material climate-related targets and goals. This approach is consistent with SEC requirements and companies' current practices regarding disclosures of other non-climate-related targets and goals, which is subject to a traditional materiality standard.[23] For example, based on a materiality analysis, we have disclosed a production outlook for the Permian Basin of more than one million barrels per day by 2025 in the Description of Business section of the Company's 2021 Form 10-K. We also further recommend that the SEC narrowly define climate-related targets and goals to focus on those solely related to GHG emissions, since broad interpretation of the definitions could encompass a wide range of immaterial targets and goals, including nearly all those that may relate to the environment. Apart from climate-related considerations, targets and goals are useful to business management for many industries, yet the numerous and varied metrics that companies may set do not necessarily result in decision-useful information for investors. Thus, we ask the SEC to focus any disclosure requirements on GHG emissions targets and goals, provided such measures are material to the particular company.

Scenario Analysis: We believe that scenario analysis can be a valuable tool for companies to use in business management. Chevron regularly uses scenarios to test our portfolio, assess investment strategies, and evaluate business risk, and we integrate learnings into our decision making in order to remain competitive and resilient. While scenario analysis is a helpful tool, required disclosure of each scenario that a company simulates could result in the disclosure of commercially and strategically sensitive information, to the detriment of that company and its investors, which could penalize and disincentivize companies from taking prudent steps to manage risk through robust and varied scenario analyses. Moreover, disclosure of each scenario that a company simulates could result in disclosure of significant amounts of immaterial information that may only be of interest to competitors, not investors. Furthermore, because a company simulates a range of scenarios that could include those that management believes would have a remote likelihood of occurring, the Commission should not mandate disclosure of all scenario analyses, including input parameters, that a company performs.

[23] Per Item 101 of Regulation S-K (17 C.F.R. § 229.101), in describing developments, only information material to an understanding of the general development of the business is required.

Companies are required to evaluate known trends or uncertainties and then disclose in the MD&A section of its financial filings[24] those that have had or would reasonably have a material effect on the company's financial condition, cash flow or results of operations in a way that makes the past financial information not necessarily indicative of future condition or results. This established two-step test provides for the disclosure of material effects if the known trend or uncertainty is reasonably likely to occur. We believe this requirement provides the type of decision-useful information for investors that the proposal is seeking in its scenario analysis requirements.

If the SEC does require disclosure of scenario analysis, the SEC should specify one or more climate-related scenarios and limit required disclosure to material, high-level trends, rather than speculative asset-specific details, potentially impacting the company's portfolio. Any required scenario analysis should rely only upon inputs from externally disclosed well-known third-party scenarios, such as IEA scenarios in the case of oil and gas companies. We believe such an approach would provide insight to investors into potential overall trends for a company and foster consistent, comparable information across companies, while also addressing competitive harm concerns.

Internal Carbon Price: As Chevron explains in its most recent Climate Change Resilience Report,[25] although the terms are sometimes used interchangeably, a carbon price, a carbon cost, and a proxy carbon price are different. For example, the term *carbon cost* is sometimes used to refer to carbon pricing and sometimes used to refer to the societal impacts from carbon emissions. A *proxy carbon price* is a hypothetical, aggregated price of carbon, which may include estimates for non-pricing regulations, published for investment analysis purposes. Furthermore, for Chevron, the term *carbon price* refers to an external price resulting from a policy like a carbon tax or cap-and-trade system, and for us, a *carbon cost* is generally a function of a jurisdiction-specific carbon price forecast and asset-specific characteristics that represent the cost for compliance the asset would face.

A "proxy carbon price" may be difficult to forecast individually (*e.g.*, an estimate of the cost of efficiency policies, fuel standards, and carbon pricing regulation aggregated into a single dollar per tonne equivalent). It appears that in formulating its Proposal, the Commission is seeking disclosure of a hypothetical, aggregated "proxy" price—yet the SEC's definition refers to what is commonly perceived as a "carbon cost" related to compliance. The SEC's Proposal is thus potentially confusing and in tension with jurisdictions that protect companies' proprietary

[24] *See* Item 303 of Regulation S-K (17 C.F.R. § 229.303).
[25] Chevron Corp., *supra* note 5, at 29.

analyses and forecasts of carbon costs.[26] Chevron considers "carbon prices and derived carbon costs in business planning, investment decisions, impairment reviews, reserves calculations, and assessment of carbon-reduction and new energy opportunities."[27] The information and the analyses that factor into these calculations are proprietary.

In the event that carbon price-related disclosure is mandated in the final rules, the Commission should consider alternatives to internal carbon price disclosure that further the SEC's goals for comparability and consistency using approaches the SEC has employed or otherwise recognized, such as a disclosure requirement similar to FASB Accounting Standards Codification (ASC) 932, which requires a standardized measure of discounted future cash flows relating to proved oil and gas reserves quantities, often referred to as the standardized measure of oil and gas, or SMOG. We believe that a disclosure requirement similar to SMOG could promote comparable and consistent disclosures. Under SMOG, companies are required to estimate proved reserves using oil and natural gas prices based on the 12-month historical average of the beginning-of-month prices, as well as under standardized guidelines that help promote the comparability of disclosures. Likewise, the SEC could prescribe the required inputs (for example, a range of proxy carbon prices) and require disclosure of any material, high-level trends potentially impacting the company's portfolio over prescribed time horizons.

<u>Carbon Offsets</u>: Chevron believes that a company's disclosure regarding high-level strategies to use offsets to achieve its climate-related targets could potentially be useful information for investors; however, the Proposal's requirement for detailed disclosure regarding a company's use of carbon offsets[28] would result in public disclosure of commercially sensitive, yet likely immaterial information, such as highly negotiated prices associated with different offset-generating projects. To promote comparability of useful information, an alternative to the current provision in the Proposal could require, to the extent material, disclosure of carbon offsets and renewable energy credits inventory volume and annual retirement volume at a summarized level in the same disclosure as GHG emissions and for the same time period. This summarized version of the information would effectively convey comparable information while avoiding competitive harm concerns.

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[26] For example, California Air Resource Board's (CARB) website guidance on confidentiality of materials submitted to CARB references the California Public Records Act, Cal. Gov't Code Ann. § 6254.7, and states: "[A]ir pollution emission data are always public records, even if the data comes within the definition of trade secrets. *On the other hand, the information used to calculate air pollution emissions may be withheld from the public if the information is a trade secret*." CARB, *Treatment by the ARB of Information Designated Confidential by a Submitting Party* (Apr. 21, 2010), available at https://www.arb.ca.gov/regact/confid htm (emphasis added). Section 6254.7(e) of the California Public Records Act itself provides: "Notwithstanding any other provision of law, all air pollution emission data, including those emission data which constitute trade secrets as defined in subdivision (d), are public records. Data used to calculate emission data are not emission data for the purposes of this subdivision and data which constitute trade secrets and which are used to calculate emission data are not public records." Cal. Gov't Code Ann. § 6254.7(e).

[27] Chevron Corp., *supra* note 5, at 3.

[28] *See* Item 1502(c)(2) of Regulation S-K as proposed in Securities Act Release No. 33-11042, at 77 (Mar. 21, 2022) available at https://www.sec.gov/rules/proposed/2022/33-11042.pdf.

Governance Disclosures

We recommend that the Commission allow for the disclosure on board and management oversight of climate-related matters, if material, to be included in the proxy statement, where it ordinarily can be located and where it can be read alongside related information, instead of in the Form 10-K as outlined in the Proposal. We further ask that the SEC confirm that Item 1501, if adopted as proposed, would state that a person who is determined to have expertise in climate-related risks will not be deemed an expert for any purpose, including, without limitation, for purposes of Sections 7 or 11 of the Securities Act (15 U.S.C. 77k), as a result of being designated or identified as a director with expertise in climate-related risks pursuant to proposed Item 1501.[29]

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We hope our comments are helpful to the Commission in determining next steps for the Proposal. If you have any questions on the content of this letter, please contact Amit Ghai, Assistant Controller, at [redacted].

Sincerely,

cc:

Chair Gary Gensler
Commissioner Caroline A. Crenshaw
Commissioner Allison Herren Lee
Commissioner Hester M. Peirce
Renee Jones, Director, Division of Corporation Finance

[29] *Cf.*, *e.g.*, Item 407(d)(5)(iv) of Regulation S-K; Item 407(j)(2) of Regulation S-K as proposed in Securities Act Release No. 33-11038, at 44-46 (March 9, 2022), available at https://www.sec.gov/rules/proposed/2022/33-11038.pdf.