



June 11, 2021

*Via Electronic Submission*

Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

**Re: Climate Change Disclosures**

The American Council on Renewable Energy (“ACORE”) respectfully submits these comments concerning the March 15, 2021 request for public input on climate change disclosures from the Securities and Exchange Commission (“SEC” or “Commission”). ACORE is a national nonprofit organization dedicated to advancing the renewable energy sector through market development, policy changes and financial innovation. ACORE’s membership includes renewable energy developers, institutional investors, corporate buyers, electric power generators, retail energy providers, and other stakeholders interested in identifying and implementing best practices for ESG disclosure and scoring.<sup>1</sup>

To help mitigate long-term climate change risks, electric power generators, retail energy providers, investors and corporate energy buyers are adopting aggressive sustainability targets and considering ESG criteria to better evaluate the impact of their investments. Therefore, the potential allocation of ESG funds to renewable energy investment presents an opportunity to enhance the growth of climate-friendly energy resources.

***In response to question one, “How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?”***

Investors increasingly expect information from companies on climate risks, but the quality of reporting is often uneven. As a result, new “sustainability” investments do not necessarily result in direct greenhouse gas (“GHG”) emission reductions. Investors need more consistent, comparable, transparent and forward-looking corporate disclosures they can evaluate objectively.

If electric power generators, retail energy providers, corporations, investors and states intend to achieve the dramatic declines in GHG emissions scientists say are needed by 2050, we must move to adopt a unified approach for climate disclosures that reflect companies’ forward-looking

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<sup>1</sup> The views expressed are those of the American Council on Renewable Energy and do not necessarily reflect the views of any individual ACORE member company.

climate risk exposures, climate opportunities, strategies and scenario planning while also tracking progress toward these goals.

The Commission can be an instrumental actor in this process by requiring corporate filing of climate disclosures. Climate transition and physical risks, in particular, have become clearly established corporate data points the Commission should regulate.

SEC regulation of climate disclosures should be modeled off the widely used Task Force on Climate-related Financial Disclosures (“TCFD”) framework’s recommendations.<sup>2</sup>

An independent body overseen by the SEC, in a manner similar to how the Commission oversees the Financial Accounting Standards Board, should lead a standard-setting effort with industry-specific metrics, rather than the SEC rulemaking process. The static nature of the rulemaking process runs the risk of not providing the flexibility needed to iterate on standards over time. The standard-setting process is ideal because these areas are continuing to rapidly evolve. We discourage the complete delegation of standards-setting to a third party. In the effort for greater transparency, the Commission or a regulated body should lead this process. We recommend setting up a robust standard-setting process and then leveraging existing voluntary standards to accelerate the work.

An independent body overseen by the Commission could also benefit from the work being done at the international level by the IFRS Foundation initiative (supported by IOSCO and the G20) to develop an international baseline for issuer disclosure of material climate-related information.<sup>3</sup> Additionally, such a body could serve as a conduit for incorporating relevant international standards into a domestic context.

A requirement to furnish, rather than file, climate change disclosure information would allow investors to better assess the risk of potential investments while avoiding any growth in the underlying cost of those investments. The Commission, in its role as a market regulator, should first develop climate-sensitive investment tools before subjecting any new associated reporting requirements to heightened legal scrutiny.

***In response to question two, “What information related to climate risks can be quantified and measured? Are there specific metrics on which all registrants should report (such as, for example, scopes 1, 2, and 3 greenhouse gas emissions, and greenhouse gas reduction goals)? What quantified and measured information or metrics should be disclosed because it may be material to an investment or voting decision? Do climate change related impacts affect the cost of capital, and if so, how and in what ways? How have registrants or investors analyzed risks and costs associated with climate change? What are registrants doing internally to evaluate or project climate scenarios, and what information from or about such internal evaluations should be disclosed to investors to inform investment and voting decisions?”***

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<sup>2</sup> Task Force on Climate-related Financial Disclosures. “TCFD Recommendations.” June 2017. <https://www.fsb-tcfd.org/recommendations/>

<sup>3</sup> “IOSCO sees strong support for its vision for an International Sustainability Standards Board under the IFRS Foundation.” May 10, 2021. <https://www.iosco.org/news/pdf/IOSCONEWS603.pdf>

The Commission should follow the TCFD’s recommendations related to corporate climate risk exposure, strategies and scenario planning. The TCFD has emerged as a leading framework for investors and companies seeking to identify climate-related risks and opportunities. As of May 2021, over 2,000 organizations support the TCFD and its recommendations. The TCFD released recommendations in June 2017 that target four thematic areas:<sup>4</sup>

- Governance: “Disclose the organization’s governance around climate-related risks and opportunities.”
- Strategy: “Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning where such information is material.”
- Risk Management: “Disclose how the organization identifies, assess, and manages climate-related risks.”
- Metrics and Targets: “Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.”

The recommendations are intentionally general with the expectation that industry leaders will tailor implementation to fit their specific needs. A standard-setting effort by an independent body overseen by the SEC could help tailor industry-specific guidance.

Voluntary disclosure frameworks and other participants in the climate disclosure landscape are beginning to align with the TCFD’s recommendations, demonstrating a willingness for further collaboration around one set of generally accepted guidelines on climate disclosure.

The Commission should also require disclosure of Scope 1-2 GHG emissions, and Scope 3 as appropriate, based on the Greenhouse Gas Protocol’s framework.<sup>5</sup> Scope 1 and 2 emissions reporting is well-developed and already disclosed by many market participants. Investors increasingly request corporate disclosures on Scope 3 emissions, but collecting information on suppliers’ GHG emissions remains a work in progress for some companies. There are 15 different categories of Scope 3 emissions and a lack of consensus around methodology, as well as open questions around concerns like double-counting and how to obtain reliable data on value chain emissions that are tenuously linked to the registrant.

***In response to question four, “What are the advantages and disadvantages of establishing different climate change reporting standards for different industries, such as the financial sector, oil and gas, transportation, etc.? How should any such industry-focused standards be developed and implemented?”***

SEC reporting standards should include industry-specific metrics to address how sectors are uniquely impacted by climate change. The development of industry-specific metrics is best suited for a standard-setting process, overseen by the Commission, that allows for evolution and nuance rather than a static rulemaking process. We recommend setting up a robust standard-

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<sup>4</sup> TCFD. “Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.” June 2017. <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

<sup>5</sup> Greenhouse Gas Protocol homepage. <https://ghgprotocol.org/>

setting process and then leveraging existing voluntary standards to accelerate the work. Industry associations may also help inform the Commission's efforts to set sector-specific guidance.

Some voluntary standards setters recommend that only energy-intensive sectors report in detail on renewable energy use and related GHG emissions. The renewable energy use of all sectors is meaningful and should be disclosed.

The Commission should solicit climate change risk reporting that corresponds to sector-specific investment categories, e.g., "oil and gas", "financial", "transportation." The oil and gas sector, for example, is simultaneously a contributor to climate change and at risk from climate change as market forces and public policy put pressure on future demand. At the same time, the industry's significant physical assets also face an increasing number of climate change-driven extreme weather events. For these reasons, the oil and gas sector should receive special attention. By contrast, sectors with little in the way of carbon emissions or physical assets will face different kinds of climate risks.

***In response to question five, "What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?"***

The requirements of existing frameworks and standards can sometimes be burdensome for disclosing companies because of the lack of consistency in reporting templates and amount of interpretation required for each framework. The Commission should consider lessons learned from existing frameworks and create alignment around one set of standards that assess forward-looking and material corporate information on climate.

The TCFD principles are a good place to start. The European Union and the United Kingdom are working to incorporate the TCFD principles into their own disclosure requirements, so aligning with the TCFD would be consistent with the Commission's objective of international harmonization.<sup>6</sup> While its recommendations lack some specificity, which introduces challenges to reporting companies, the TCFD principles are nevertheless the most developed option.

On June 9, the Sustainability Accounting Standards Board ("SASB") merged with the IIRC to become the Value Reporting Foundation. Other organizations that signed the "Statement of intent to work together towards comprehensive corporate reporting" in September 2020 can be

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<sup>6</sup> European Commission. "Corporate disclosure of climate-related information." Accessed June 7, 2021. [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information_en)  
GOV.UK. "UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap." Accessed June 7, 2021. <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>

expected to continue their coordination with the Value Reporting Foundation.<sup>7</sup> This is a helpful direction, and growing alignment around the Value Reporting Foundation’s sector-specific standards can also help inform the SEC’s standard-setting process for industry-specific metrics and possible future ESG guidance.

***In response to question nine, “What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission’s rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?”***

An independent standards setter overseen by the Commission could help the Commission’s work at the international level with the IFRS Foundation initiative (supported by IOSCO and the G20) to develop an international baseline for issuer disclosure of material climate-related information.<sup>8</sup> Such a body could serve as a conduit for incorporating international standards into a domestic context, with SEC oversight helping to ensure transparency.

Proposals to implement global best practices do not abrogate Commission sovereignty to foreign nations. In fact, the United States can best take advantage of the international movement toward climate change reporting by avoiding divergent regulatory frameworks across global markets.

Mandatory compliance protects investors by ensuring that they can make informed decisions about investments regarding their climate change risks.

***In response to question fifteen, “Should climate-related requirements be one component of a broader ESG disclosure framework? How should the Commission craft climate-related disclosure requirements that would complement a broader ESG disclosure standard? How do climate-related disclosure issues relate to the broader spectrum of ESG disclosure issues?”***

Climate disclosure is an important part of ESG investing. However, the Commission should not delay climate disclosure regulations for the more complicated process of optimizing ESG disclosure and reporting. Climate, necessarily, resides in the “E” of ESG, but this acronym is not indivisible. Rather, each component has its own catalog of challenges and opportunities, each deserving of careful scrutiny and thus requiring individual progress. In order to mitigate the worst impacts of climate change, the time is now for the Commission to act on climate-related disclosures.

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<sup>7</sup> Impact Management Project. “Statement of intent to work together towards comprehensive corporate reporting.” September 11, 2020. <https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>

<sup>8</sup> “IOSCO sees strong support for its vision for an International Sustainability Standards Board under the IFRS Foundation.” May 10, 2021. <https://www.iosco.org/news/pdf/IOSCONEWS603.pdf>

Furthermore, ESG investing is about more than highlighting climate risk or taking steps to mitigate climate harm. It is also about recognizing companies that are taking proactive steps through their business operations or investments to provide durable climate solutions. In that regard, optimized ESG disclosures should embrace the following methods for reporting renewable energy use and investment.

Within Scope 1 and 2 emissions, disclosure of energy use should be broken down by generation type. More corporate energy buyers and energy generators than ever are committing to 100 percent clean energy.<sup>9</sup> Investors are allocating capital towards companies with lower carbon earnings at risk and higher renewable energy consumption. However, the most material metrics for emissions-free energy use, predominately renewable energy, are not always disclosed. Increased disclosure can help investors track alignment with clean energy procurement targets.

Corporate sustainability reports and ESG surveys can be inconsistent and lack details regarding renewable energy use in the context of companies' overall energy consumption and total GHG emissions. The climate value associated with renewable energy procurement should vary depending on two key attributes: (1) carbon reductions and (2) a company's impact on driving new renewable energy generation. The locations and usage patterns of the company's energy-consuming facilities will also dictate the emissions from displaced fossil-fired power. Companies use various methods to procure renewable energy, such as physical power purchase agreements ("PPAs"), virtual PPAs ("VPPAs"), renewable energy credits ("RECs"), location of purchase and time-of-use purchasing, all of which have varying impacts on driving new renewable generation. ESG accounting of Scope 1 and 2 emissions, i.e., companies' direct emissions from owned or controlled sources and indirect emissions from the generation of purchased energy, should review these procurement methods to determine a company's actual impact. For example, when valuing direct carbon reductions, a company purchasing 100 megawatts ("MW") of unbundled RECs should not necessarily receive the same recognition as a company signing a VPPA for a 100 MW solar plant whose location is fixed and unvarying over the life of the VPPA contract. VPPAs may avoid a different level of emissions from fossil-fired power than RECs unbundled from renewable electricity generation. This is because unbundled RECs are not necessarily tied physically to a specific location of fossil-fired electricity generation where emissions are avoided.

Two examples of methodologies that enhance renewable energy disclosure in Scope 1 and 2 emissions disclosures include RE100's Guide on Making Credible Renewable Electricity Usage Claims and the Edison Electric Institute's ESG Reporting Framework.

RE100's Guide on Making Credible Renewable Electricity Usage Claims<sup>10</sup> provides clear insight into the materiality of a company's purchase of renewable energy by disclosing the following information: renewable energy purchasing option (e.g., VPPA, PPA, RECs), geographic location

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<sup>9</sup> RE100. "Growing renewable power: Companies seizing leadership opportunities." January 27, 2021. <https://www.there100.org/growing-renewable-power-companies-seizing-leadership-opportunities>

<sup>10</sup> RE100. "Making credible renewable electricity usage claims." April 2016. <https://www.there100.org/sites/re100/files/2020-09/RE100%20Making%20Credible%20Claims.pdf>

of the project, type of renewable energy, period of renewable energy consumption and certifications used.

Similarly, Edison Electric Institute's ("EEI") ESG Reporting Framework provides concise, forward-looking and material ESG information for investors.<sup>11</sup> EEI's Reporting Framework contains both qualitative and quantitative templates for its disclosures. While EEI's ESG Reporting Framework provides a wide range of material information, it could be further improved by requiring utilities to report on both their owned and purchased generation. Under the current framework, most utilities report only their owned generation and the associated emissions. However, purchased generation, which falls under utilities' Scope 3 emissions, i.e., indirect emissions that occur in their value chain, should also be reported to provide a more holistic view of a utility's carbon intensity.

Companies should have the option to disclose the avoided emissions associated with their Scope 3 renewable energy investments in a way that avoids giving rise to compliance confusion or concerns around double-counting. The investments of banks and capital providers extend beyond the operational carbon footprint of the investing company and contribute to GHG reductions in other sectors of the economy. The downstream impacts of their investment activity could provide tremendous future GHG savings in the form of avoided carbon emissions. However, most investors and companies are not recognized for their renewable energy investments in Scope 3 emissions reporting. The absence of an avoided carbon emissions metric creates a fundamental problem in the way companies are evaluated for their investment-based disclosures.

One solution is to revise and appropriately weigh a company's Scope 3 emissions to reflect the carbon impact of its downstream activities. The Greenhouse Gas Protocol, which is the most widely accepted GHG accounting practice, defines Scope 3 emissions as all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.<sup>12</sup> Scope 3 Technical Guidance Reporting, Category 15 describes the relationship between avoided emissions and investments. Under the current Scope 3 framework, GHG accounting practices are categorized into four types: equity investments, debt investments, project finance and managed investments, and client services. Some investors currently disclose the avoided carbon emissions of their investments by accounting for the proportional value of Scope 1 and 2 emissions within their Scope 3 reporting. However, investors are currently unable to account for negative Scope 3 emissions. Allowing for a negative Scope 3 category would enable investors and other rated companies to receive full recognition for the avoided emissions of their downstream activities and appropriately value climate-friendly companies.

Several actors in the ESG space are developing metrics to rank low-carbon companies reflecting sector-specific factors. For example, companies are now voluntarily disclosing information such

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<sup>11</sup> Edison Electric Institute. "ESG/Sustainability." Accessed June 7, 2021. <https://www.eei.org/issuesandpolicy/Pages/FinanceAndTax-ESG.aspx>

<sup>12</sup> Greenhouse Gas Protocol homepage. <https://ghgprotocol.org/>

as revenue carbon intensity (MtCO<sub>2</sub>e/\$M Revenue) and adjusted EBITDA from low-carbon sources that align with their forward-looking carbon reduction strategies.<sup>13</sup>

A set metric on carbon would remove environmental ambiguity around what is considered “green” for capital providers. For example, CarbonCount® promotes transparency in low-carbon project finance by creating comparable metrics for renewable energy and energy efficiency projects.<sup>14</sup> CarbonCount scores help investors determine the expected CO<sub>2</sub> emissions reductions per \$1,000 of investment and appropriately give credit to projects that are displacing the most GHG emissions. For example, a project in the Midwest would likely receive a higher CarbonCount score than a project in California because the grid’s avoided emissions factor would be higher in the Midwest. Additionally, CarbonCount incorporates the forward-looking emissions and power generation forecasts used by credit rating agencies. Investors and portfolio managers can leverage an avoided carbon emissions metric to evaluate the downstream impacts of their investments.

These solutions offer concrete examples of how disclosure methodologies can help capital providers better understand their overall carbon exposure and impact at the company and asset level. Allowing an appropriate metric for negative Scope 3 emissions reporting would allow investors and rated companies to receive recognition for avoided emissions.

Thank you for the opportunity to submit these comments. Please do not hesitate to contact ACORE’s Director of Regulatory Affairs, Tyler Stoff, at [REDACTED] or [REDACTED] with any additional questions you may have.

Sincerely,

*/s/ Lesley Hunter*

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<sup>13</sup> ACORE. “ESG 2.0: How to Improve ESG Scoring to Better Reflect Renewable Energy Use and Investment.” September 2019. [https://acore.org/wp-content/uploads/2019/09/ACORE\\_ESG-2.0\\_Sept-2019.pdf](https://acore.org/wp-content/uploads/2019/09/ACORE_ESG-2.0_Sept-2019.pdf), page 16

<sup>14</sup> Hannon Armstrong. “Carbon Confidence in Climate Finance.” Accessed June 7, 2021. <https://www.hannonarmstrong.com/esg/carboncount/>