

**Comments of the American Council for an Energy-Efficient Economy (ACEEE) on the U.S. Securities and Exchange Commission’s Proposed Rule on “The Enhancement and Standardization of Climate-Related Disclosures for Investors”**

**(File No. S7-10-22)**

**Submitted via <https://www.sec.gov/rules/submitcomments.htm>**

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**June 2022**

The American Council for an Energy Efficient Economy (ACEEE) is an independent non-profit organization dedicated to advancing energy efficiency policies, programs, technologies, investments, and behaviors. ACEEE aims to build a vibrant and equitable economy, one that uses energy more productively, reduces costs, protects the environment, and promotes public health and safety.

Climate change, equity, and economic issues demand urgent action. The pace of climate change due to global energy use threatens our world’s well-being and compromises the global economy, our health and safety, and the ecosystems on which we depend.<sup>1</sup> The United States, and indeed all nations, have a dire need to reduce greenhouse gas (GHG) emissions rapidly and equitably and to do so in a way that is economically sound. As investors increasingly demand information on registrants’ exposure to climate risks and on steps that registrants take to mitigate climate change or adapt to it, there is serious lack of consistency in reporting this information. ACEEE is pleased that the Securities and Exchange Commission (Commission) has issued this proposal to address this critical issue.

We offer the comments below on the proposed rule on “The Enhancement and Standardization of Climate-Related Disclosures for Investors.” Topics covered here include application of the Task Force on Climate-Related Financial Disclosures (TCFD) framework with disclosure of energy-efficiency measures, required reporting of Scope 1 and Scope 2 emissions data, the proposed plan for reporting of Scope 3 emissions, and consistent disclosure of transition plans to mitigate or adapt to climate-related risks. If the Securities

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<sup>1</sup> American Council for an Energy-Efficient Economy (ACEEE), A Call to Action for Energy Efficiency (2020). available at <https://www.aceee.org/sites/default/files/pdfs/call-to-action.pdf>

and Exchange Commission (Commission) has any questions, please do not hesitate to contact Alexander Ratner at [aratner@aceee.org](mailto:aratner@aceee.org).

## **I. The Commission’s Disclosure Framework Should Be Based on the Task Force on Climate-Related Financial Disclosures Framework (Question No. 3)**

We agree with the Commission’s proposal to model its climate-related disclosure framework in part on the framework recommended by the TCFD<sup>2</sup> because this alignment would help elicit disclosures that are consistent, comparable, and reliable for investors. The TCFD framework is widely understood and accepted by registrants, with support from more than 2,600 organizations, including 1,069 financial institutions responsible for \$194 trillion in assets.<sup>3</sup>

By adopting the TCFD framework the Commission will be aligning U.S. policy on disclosures with those of the United Kingdom, France, Japan, Canada, Belgium, Chile, New Zealand, and Sweden.<sup>4</sup> This growing consistency in global standards on climate disclosures will allow investors to more readily compare the climate risks of investments in all of these countries.

### **FINANCIAL REPORTING SHOULD INCLUDE DISCLOSURE OF ENERGY-EFFICIENCY MEASURES AND METRICS**

One of the limitations that stands out in the TCFD recommendations is that they make only brief mention of energy efficiency.<sup>5</sup> Given energy efficiency’s central role in helping many businesses meet their climate commitments, financial reporting should include clear and

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<sup>2</sup> The Enhancement and Standardization of Climate-Related Disclosures for Investors, 87 Fed. Reg. 21,334 at 21,343 (proposed April 22, 2022) (to be codified at 17 C.F.R. pt. 210, 229, 232, 239, and 249) [hereinafter *Proposal*].

<sup>3</sup> Task Force on Climate-related Financial Disclosures (TCFD), 2021 Status Report (September 15, 2021). *available at* <https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/>.

<sup>4</sup> CERES, Get Ready for Mandatory Climate Disclosure SEC, <https://www.ceres.org/sec> (last visited June 10, 2022).

<sup>5</sup> TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures (June 15, 2017). *available at* <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>.

comparable disclosure of energy-efficiency measures. ACEEE's 2019 report on *Energy Efficiency and Corporate Sustainability* found that corporate sustainability goals and reporting on energy efficiency are haphazard and noted that "what gets measured gets managed," highlighting the need to include energy efficiency in disclosures.<sup>6</sup>

There is a wealth of evidence showing that energy efficiency is critical to meeting climate goals. The International Energy Agency's (IEA's) *Net Zero by 2050 Scenario* found that a major worldwide push to increase energy efficiency is an essential part of the net-zero emissions pathway, leading to a world economy that is 40% larger by 2030 than it was in 2021 but uses 7% less energy.<sup>7</sup> ACEEE's own *Halfway There* report found that energy-efficiency measures could cut U.S. GHG emissions by half in 2050.<sup>8</sup> Energy-efficiency measures make sense for registrants because they cut costs while generating significant environmental benefits. FedEx, for example, has achieved most of its carbon emissions reductions, more than 2 million tons in 2019, from more-efficient aircraft and flight operations—while also saving over \$550 million.<sup>9</sup>

While energy use is central to climate risk throughout the economy, the areas of importance and appropriate metrics will vary significantly by industry. In order to achieve comparable disclosure of energy-efficiency measures, the Commission should encourage registrants to follow the climate- and energy-related portions of the more detailed industry-specific disclosure guidance and metrics of the U.S.-based Sustainable Accounting Standards Board (SASB),<sup>10</sup> as noted by dozens of commenters to the Commission's Request for Information

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<sup>6</sup> Lowell Ungar & Andrew Whitlock, ACEEE, *Energy Efficiency and Corporate Sustainability: Saving Money While Meeting Climate Goals* (November 21, 2019). available at <https://www.aceee.org/topic-brief/ee-corporate-sus-112119>.

<sup>7</sup> International Energy Agency, *Net Zero by 2050 A Roadmap for the Global Energy Sector* (October 2021). available at [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf).

<sup>8</sup> Steven Nadel & Lowell Ungar, ACEEE, *Halfway There: Energy Efficiency Can Cut Energy Use and Greenhouse Gas Emissions in Half by 2050* (September 2019). available at <https://www.aceee.org/sites/default/files/publications/researchreports/u1907.pdf>.

<sup>9</sup> FedEx, *Multiplying Opportunities 2020 Global Citizenship Report* (2020). available at [https://www.fedex.com/content/dam/fedex/us-united-states/sustainability/gcrs/FedEx\\_2020\\_Global\\_Citizenship\\_Report.pdf](https://www.fedex.com/content/dam/fedex/us-united-states/sustainability/gcrs/FedEx_2020_Global_Citizenship_Report.pdf)

<sup>10</sup> Value Reporting Foundation, *SASB Standards*, Download SASB Standards, <https://www.sasb.org/standards/download/> (last visited June 13, 2022).

(RFI).<sup>11</sup> SASB provides 77 industry-specific standards that identify the subset of environmental, social, and governance issues most relevant to financial performance in each of these sectors. For some sectors, the standards include energy-efficiency metrics. The Chemical Industry Standards, for example, require reporting entities to disclose electricity use and total energy use and to discuss efforts to reduce energy consumption and improve efficiency in manufacturing and production processes.<sup>12</sup> This includes implementing one of the fundamental principles of green chemistry: design for energy efficiency. The Chemical Industry Standard also requires registrants to disclose revenue from products designed to increase energy efficiency and other resource efficiency during their use.

SASB standards are designed to be used by registrants as a practical tool for implementing the TCFD framework.<sup>13</sup> Many registrants already use these frameworks to develop their existing voluntary ESG disclosures, and they provide salient information on the distinctive contexts of diverse industries. ACEEE agrees with the RFI comments of the American

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<sup>11</sup> See, e.g., letters from Adobe Inc. (June 11, 2021); Alberta Investment Management Corporation (June 11, 2021); AllianceBernstein; American Chemistry Council (June 11, 2021); American Society of Adaptation Professionals (June 11, 2021); Baillie Gifford (June 11, 2021); Bank Policy Institute (June 9, 2021); BlackRock; Bloomberg, LP (June 3, 2021); bp; BSR (June 11, 2021); Canadian Bankers Association (June 11, 2021); Canadian Coalition of Good Governance; Capital Group (June 11, 2021); Catavento Consultancy (Apr. 30, 2021); Center for Climate and Energy Solutions; Confluence Philanthropy (June 14, 2021); ConocoPhillips, Inc. (June 11, 2021); CPP Investments (June 11, 2021); Enbridge, Inc. (June 11, 2021); Energy Workforce and Technology Council (June 11, 2021); Entelligent, Inc. (June 14, 2021); Ethic Inc.; Emmanuelle Haack (Apr. 27, 2021); Harvard Management Company (June 11, 2021); Hermes Equity Ownership Services Limited (June 14, 2021); Douglas Hileman Consulting (June 7, 2021); HP, Inc. (June 14, 2021); Virginia Harper Ho (June 12, 2021); IHS Markit (June 13, 2021); Institute of International Bankers; Institute of International Finance (June 13, 2021); Institute of Management Accountants (June 12, 2021); Invesco (June 10, 2021); Investment Company Institute; Investment Consultants Sustainability Working Group (June 11, 2021); Richard Love (May 20, 2021); Manulife Investment Management (June 11, 2021); NEI Investments (June 11, 2021); Neuberger Berman (June 11, 2021); New York State Society of Certified Public Accountants; Nordea Asset Management (June 11, 2021); Norges Bank Investment Management (June 13, 2021); NY State Comptroller; Paradice Investment Management (June 11, 2021); Parametric Portfolio Associates; PayPal Holdings, Inc. (June 12, 2021); PGIM (June 13, 2021); Reinsurance Association of America (June 9, 2021); Salesforce.com (June 11, 2021); San Francisco Employees Retirement System (June 12, 2021); State Street Global Advisors; Summit Strategy Group (June 11, 2021); Teachers Insurance and Annuity Association of America (June 11, 2021); T Rowe Price (June 11, 2021); Value Reporting Foundation (June 11, 2021); Wellington Management Co. (June 11, 2021); and Westpath Benefits and Assessments (June 11, 2021).

<sup>12</sup> Sustainable Accounting Standards Boards (SASB), Chemicals Sustainability Accounting Standard (October 2018). available at [https://www.sasb.org/wp-content/uploads/2018/11/Chemicals\\_Standard\\_2018.pdf](https://www.sasb.org/wp-content/uploads/2018/11/Chemicals_Standard_2018.pdf).

<sup>13</sup> Value Reporting Foundation, SASB Standards, SASB Standards and Other ESG Frameworks, <https://www.sasb.org/about/sasb-and-other-esg-frameworks/> (last visited June 13, 2022).

Chemistry Council (ACC) that capturing these differences is “essential to providing comparable and decision-useful disclosures to investors.”<sup>14</sup> As even more registrants and investors use these standards, they should be further developed to ensure the most useful and comparable information is available for each industry.

## THE COMMISSION SHOULD ADOPT A CLEAR DEFINITION OF ENERGY EFFICIENCY FOR THE PURPOSES OF DISCLOSURE

In order to foster consistent, comparable, and reliable disclosures of registrants’ energy-efficiency measures, the Commission should adopt a definition of “energy efficiency” within this rule for the purposes of disclosures covered by its requirements. While the general value of energy efficiency is often well understood, the scope may not be, and managers and investors who do not focus on energy efficiency may consider only selected energy efficiency opportunities or may mistake some renewable energy or other “green” measures for efficiency measures. Including a definition of efficiency should help bring clarity to disclosures.

ACEEE defines energy efficiency as:

- Using less energy to provide the same or better products, services, or amenities, while providing multiple benefits for households and businesses.<sup>15</sup>

Some examples of energy efficiency pursuant to this definition are upgrading an office lighting system with LEDs and smart sensors, adding insulation to a home, switching to an electric vehicle or a bicycle, or improving a manufacturing process. ENERGY STAR®<sup>16</sup> and the U.S. Department of Energy (DOE)<sup>17</sup> also note that energy efficiency is vital to achieving net-zero emissions of carbon dioxide through decarbonization. In a GHG-reduction context,

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<sup>14</sup> Chris Jahn, American Chemistry Council, The American Chemistry Council Letter on SEC’s Climate Change Disclosure Initiative 2 (June 11, 2021). *available at* <https://www.sec.gov/comments/climate-disclosure/cll12-8911729-244383.pdf>.

<sup>15</sup> Maggie Molina, Patrick Kiker, & Seth Nowak, The Greatest Energy Story You Haven’t Heard: How Investing in Energy Efficiency Changed the US Power Sector and Gave Us a Tool to Tackle Climate Change (October 2016). *available at* <https://www.aceee.org/sites/default/files/publications/researchreports/u1604.pdf>.

<sup>16</sup> ENERGY STAR, About Energy Efficiency, [https://www.energystar.gov/about/about\\_energy\\_efficiency](https://www.energystar.gov/about/about_energy_efficiency) (last visited June 13, 2022).

<sup>17</sup> U.S. Department of Energy Office of Energy Efficiency and Renewable Energy, Energy Efficiency, <https://www.energy.gov/eere/energy-efficiency> (last visited June 13, 2022).

assessments of energy efficiency should also take into consideration the time and location when the energy use reduction occurs due to varying GHG content in energy resources such as electricity (e.g., reducing use from fossil sources at a time of peak demand lowers GHG emissions more than reducing use at a time of peak solar production). Most electricity providers should be able to provide time-of-usage information to their customers.

## **II. Required Reporting of Scope 1 and Scope 2 Emissions Data Is an Essential Measure That Will Benefit Investors (Question No. 97)**

ACEEE agrees with the Commission's decision in the proposed rule to require reporting of Scope 1 and Scope 2 emissions data in registrants' annual disclosures as set forth in 229.1505. This requirement is an essential measure that will benefit investors without placing an undue burden on registrants.

According to the Statement of Essential Principles for SEC Climate Change Disclosure Rulemaking signed by investors with nearly \$4 trillion in assets under management and advisement, climate risk disclosure would bring significant benefits to investors and registrants.<sup>18</sup> Investors require access to consistent, comparable, and reliable information at scale in order to understand their exposure to risks and to plan for where their assets will need to be in a net-zero world. In advance of COP26, 733 investors, representing more than half of all assets under management globally, signed a statement with overwhelming support for climate disclosure, saying that they need access to adequate information on how registrants are assessing and managing the risks and opportunities presented by climate change.<sup>19</sup>

The one-year phase-in of this rule is an appropriate measure to give registrants time to develop and execute a strategy for compliance, and to collect data internally and from their energy providers.

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<sup>18</sup> Ceres, et. al., SEC Climate Disclosure Sign-On Statement, <https://survey.alchemer.com/s3/6292930/SEC-Climate-Disclosure-Support-Letter> (last visited June 13, 2022).

<sup>19</sup> The Investor Agenda, 733 investors with more than US\$52 trillion issue strongest-ever unified call for governments to end fossil fuel subsidies, phase out coal, and mandate climate risk disclosure, in a final plea ahead of COP26 (October 27, 2021) available at <https://theinvestoragenda.org/press-releases/27-october-2021/>.

## REGISTRANTS CAN REPORT SCOPE 1 AND SCOPE 2 DATA ACCURATELY AND RELIABLY

Large U.S. industrial and energy plants already are required to disclose GHG emissions (roughly half of U.S. emissions). Registrants can estimate Scope 1 emissions from most smaller facilities and vehicle fleets using consumption of fuels and standard emission factors. EPA and others have tools for this purpose, such as EPA Portfolio Manager, which is already used for a quarter of U.S. commercial building floor area. Scope 2 emissions can usually be calculated using electricity consumption and emissions factors discussed in the next section.<sup>20</sup>

## THE COMMISSION SHOULD USE REGIONAL AVERAGE EMISSION INTENSITY DATA FOR SCOPE 2 DISCLOSURE

In its proposal, the Commission notes two common methods for calculating Scope 2 emissions from purchased electricity: the market-based method and the location-based method.<sup>21</sup> The market-based method, which uses emission factors and other data provided by the generator of electricity from which the registrant has contracted to purchase said electricity and which are included in the contractual instruments, makes sense and is a clear and reasonable way to estimate emissions under these contracts.

The location-based method uses “average energy generation emission factors for grids located in defined geographic locations, including local, subnational, or national boundaries.” However, registrants can more accurately estimate Scope 2 emissions in the United States with a location-based method that does not use national electric intensities, and they can do so without undue burden. For U.S. electricity not purchased with contractual emissions or sources, the Commission should set a default or preferred method (which could be under a broader hierarchy of methods that would also apply outside the United States) of using the average emissions intensity of the utility from which the electricity is purchased or the marginal intensity of the electric grid region. Utilities are required to report their

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<sup>20</sup> U.S. Environmental Protection Agency (EPA), Greenhouse Gas Reporting Program (GHGRP), <https://www.epa.gov/ghgreporting> (last visited June 13, 2022); ENERGY STAR, Benchmark Your Building Using ENERGY STAR® Portfolio Manager®, <https://www.energystar.gov/buildings/benchmark> (last visited June 13, 2022).

<sup>21</sup> *Proposal* at 21,386.

emissions. Regional marginal emissions can be easily estimated by location, and by time if time-of-use information is available, using the Environmental Protection Agency's Avoided Emissions and generation Tool (AVERT).<sup>22</sup> This method will more accurately capture electric intensity for the region or regions in which a registrant operates its facilities, and it can be done with publicly available resources. ACEEE recommends that the Commission require registrants to apply this variant of the location-based method unless the registrant can show that an alternative method is more accurate for its specific data.

### **III. Disclosure of Scope 3 Emissions Is Appropriate and Will Benefit Investors but the Commission Must Recognize Greater Uncertainty Compared with Scope 1 and Scope 2 (Question No. 98)**

Disclosure of Scope 3 emissions is critical to investors' understanding of registrants' climate-risk activities. For many registrants, Scope 3 emissions will be greater than total Scope 1 and 2 emissions; thus, they may more materially reflect risk to the firm. Without Scope 3 disclosures, publicly traded companies seeking to cloak their true emissions would have an incentive to contract out their carbon-intensive activities to foreign firms or firms that are not publicly traded.<sup>23</sup> This activity would shield registrants from public scrutiny and make it difficult for investors to fully understand the climate risks associated with their investments.

#### **SCOPE 3 DATA SHOULD NOT BE TREATED WITH THE SAME LEVEL OF CONFIDENCE AS SCOPES 1 AND 2**

While disclosure of Scope 3 data is undoubtedly an important measure for investors to be able to understand climate risk, there is substantially greater uncertainty in methodologies for collecting and conveying that data compared to Scope 1 and 2 data. Thus, ACEEE agrees that Scope 3 emissions data should not be treated with the same level of confidence as Scopes 1 and 2.

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<sup>22</sup> EPA, Avoided Emissions and generation Tool (AVERT), <https://www.epa.gov/avert> (last visited June 13, 2022).

<sup>23</sup> Witold Henisz, Knowledge at Wharton, The Benefits of the SEC's Climate Disclosure Rule (April 12, 2022) available at <https://knowledge.wharton.upenn.edu/article/the-benefits-of-the-secs-climate-disclosure-rule/>.



The targeted safe harbor for Scope 3 emissions data laid out by the Commission in 229.1504(f)<sup>24</sup> is an appropriate measure to ensure that registrants are not penalized for good faith efforts to disclose this data (as long as they do disclose material emissions). Most industry sectors still lack proven and reliable methods to capture and disclose Scope 3 data, and as those methodologies are still being developed, it would be unreasonably punitive to hold registrants liable for errors except when such disclosures are made without reasonable basis or disclosed other than in good faith.

## REGISTRANTS SHOULD BE ABLE TO PROVIDE A REASONABLE REPRESENTATION OF MATERIAL UPSTREAM EMISSIONS

Upstream emissions are typically closely tied to registrants' supply chains. Therefore, they ought to be able to provide a reasonable representation of these emissions now, or after a period of preparation set forth in the phased-in compliance dates of the proposed rule.<sup>25</sup> It will be important for registrants to identify the most material upstream emissions from their suppliers, including suppliers' Scopes 1, 2, and 3 upstream emissions, so the efforts of registrants and their suppliers can be focused on the most important sources of emissions.

## DISCLOSURE OF MATERIAL DOWNSTREAM EMISSIONS IS ESPECIALLY IMPORTANT FOR ENERGY REGISTRANTS AND CERTAIN MANUFACTURERS AND RETAILERS

ACEEE supports the disclosure of material downstream emissions as laid out in the proposed rule at section 229.1504(c).<sup>26</sup>

Estimates of downstream Scope 3 emissions are fundamentally different from upstream emissions, and they exhibit more uncertainty because of the wide range of consumption patterns exhibited by end users and the broad time horizons in which these emissions might occur.

Despite these difficulties, for many sectors Scope 3 is critical to understanding total corporate emissions. In the energy sector, for instance, corporate emissions include the

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<sup>24</sup> *Proposal* at 21,469.

<sup>25</sup> *Id.* at 21,412.

<sup>26</sup> *Id.* at 21,468.

releases from sold products such as gasoline and aviation fuel.<sup>27</sup> These disclosures are especially important for providing investors with an understanding of the climate effects created by manufacturers of energy-producing (e.g., electric generation equipment), energy-using (e.g., automotive and HVAC equipment), and energy-conserving (i.e., efficiency equipment and efficient building materials) products and services.

## THE COMMISSION SHOULD PROVIDE GUIDANCE ON HOW REGISTRANTS CAN ESTIMATE AND REPORT INDIRECT HANDPRINT EFFECTS OF PRODUCTS AND SERVICES

ACEEE supports the addition of guidance on how registrants can estimate and report indirect handprint effects<sup>28</sup> from end users' applications of registrants' products and services that result in changes of end users' emissions. These effects are not directly within the control of the registrants but may have significant effects on the overall GHG emissions of the economy.

While not currently explicitly included in downstream Scope 3 emissions, ACEEE feels these effects can be material for many registrants and may not be adequately captured under current GHG accounting protocols. An example of a handprint is the installation of insulation in a building; the insulation can result in energy savings and thus avoided emissions over the life of the building that will be far larger than the additional emissions that result from the manufacture and installation of the product. While handprints are largely beneficial, in some cases there may be a detrimental impact, such as the sale of a product that results in greater GHG emissions (e.g., low-efficiency internal combustion engine vehicles like trucks and sport

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<sup>27</sup> Armena Saiyid, IHS Markit, Oil, gas companies under pressure to manage Scope 3 emissions to reach net-zero goals: analysts (June 22, 2021). *available at* <https://cleanenergynews.ihsmarkit.com/research-analysis/oil-gas-companies-under-pressure-to-manage-scope-3-emissions-t.html>.

<sup>28</sup> See: Saija Vatanen, VTT, Carbon handprint: New environmental indicator for evaluating the positive climate impacts of products (December 18, 2018). *Available at* <https://www.vttresearch.com/en/news-and-ideas/carbon-handprint-new-environmental-indicator-evaluating-positive-climate-impacts#:~:text=The%20carbon%20handprint%20describes%20the,familiar%20carbon%20and%20water%20footprints>; also See: Massachusetts Institute of Technology (MIT), shine Sustainability and Health Initiative for NetPositive Enterprise (SHINE), <https://shine.mit.edu/sustainability-and-health-initiative-netpositive-enterprise-shine> (last visited June 13, 2022). *Note:* A similar concept has been proposed under the term Scope 4 emissions.

utility vehicles). A handprint calculation shows the size of handprint caused by the enabling registrant's product or services: the bigger the beneficial handprint, the better.

However, calculating the size of handprints can be very challenging. Part of the challenge is that many value-chain registrants may contribute to the provision of a product or a service that end-use customers implement. Determining responsibility may not be easy. For example, the application of a smart building system, which can significantly reduce energy use, depends upon hardware and software from multiple vendors, as well as on enabling systems such as the internet and cloud computing. In addition, the emissions impacts are indirect and may be difficult to estimate.

ACEEE thus suggests that these handprint effects be reported separately from footprint emissions. Entities involved in developing handprint estimation methodologies in Europe and the United States, such as VTT Technical Research Center and LUT University of Finland and the Harvard-MIT SHINE Institute, propose that companies commit to individually minimize their footprints while at the same time commit to maximizing their positive handprint collectively with their value chain partners.<sup>29,30,31</sup> This approach would allow investors to assess the risks or benefits that result from the use of registrants' products or services by customers, while providing the investor a separate estimate of the emissions exposure resulting from operations in the registrants' GHG footprints, as well as separating risks with different levels of uncertainty. Separating footprint from handprint provides investors with richer and more transparent perspective on these two aspects of GHG risks for registrants.

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<sup>29</sup> Tiina Pajula, Saija Vatanen, Katri Behm, Kaisa Grönman, Laura Lakanen, Heli Kasurinen, & Risto Soukka, VTT Research Centre and LUT University, Finland, Carbon handprint guide (2021). *available at* [https://www.vttresearch.com/sites/default/files/pdf/publications/2021/Carbon\\_handprint\\_guide\\_2021.pdf](https://www.vttresearch.com/sites/default/files/pdf/publications/2021/Carbon_handprint_guide_2021.pdf).

<sup>30</sup> SHINE Institute, MIT, Research Brief #1: What are Handprints? (February 2021). *available at* [https://shine.mit.edu/sites/default/files/RB1%20What%20are%20Handprints%2003032021\\_1.pdf](https://shine.mit.edu/sites/default/files/RB1%20What%20are%20Handprints%2003032021_1.pdf).

<sup>31</sup> *Id.*

#### IV. DISCLOSURE OF TRANSITION PLANS TO MITIGATE OR ADAPT TO CLIMATE RELATED RISKS SHOULD BE CONSISTENT (QUESTION NO. 42)

ACEEE supports the proposed rule's requirement of consistent disclosure of energy and climate goals, and transition plans to mitigate or adapt to climate related risks, for registrants that have adopted goals or plans.

The transition risks depend not only on a registrant's emissions but also on its strategy and actions to mitigate risks and position its products and services for a more climate-friendly economy. Energy efficiency should be central to the strategy and fully included in related disclosures.

#### TRANSITION RISKS SHOULD BE CONSIDERED, BUT THE PROPOSAL'S EXAMPLES MISS SIGNIFICANT RISKS

The transition risk examples given in 229.1503(a)(1) and (c)(2)(ii) miss significant elements of the transition that should be considered in registrant risk management:

*Legal and regulatory:* While GHG limits or prices would be important, many jurisdictions and federal proposals are addressing climate change using energy policies rather than direct GHG regulations. Registrants should consider whether these energy policies present material risks. For example, stronger vehicle emissions and fuel economy standards, equipment efficiency standards, and building energy codes could present significant risks and opportunities for vehicle and product manufacturers, builders and contractors, and fleet and building owners. Electrification policies could end markets for some natural gas, oil, and other fossil fuel equipment (while presenting significant markets for heat pumps and other electrical equipment). For example, California's Title 24 building code is intended to require zero net electricity (ZNE) homes now and is planned to require ZNE commercial buildings by 2030.

*Market:* In addition to the factors described in the draft, changes in energy prices due to the transition could present significant risks. For example, if electrification policies result in fewer customers for natural gas, prices for remaining customers could rise in

order to cover fixed infrastructure costs, creating risks for large natural gas consumers that are slow to electrify and for manufacturers of gas equipment.<sup>32</sup>

## ENERGY-EFFICIENCY MEASURES ARE CENTRAL TO TRANSITION PLANS, AND THE FINAL RULE SHOULD ENSURE THAT REPORTING MEASURES COVER ENERGY EFFICIENCY CONSISTENTLY

The discussion of mitigating transition risks in 1503(c)(2)(ii) gives examples of risks (discussed above) but not of mitigation strategies, though the discussion of opportunities in 1503(c)(3) mentions a few. The closely related discussion of meeting targets in 1506(b)(6) only mentions “energy efficiency.” Energy-efficiency measures should be core to mitigation strategies for most registrants given the centrality of fossil fuel emissions and the limitations of zero-carbon sources (and of Renewable Energy Credits and offsets). We found that registrants generally do report on energy efficiency in sustainability reporting, but in ways that are typically limited and often anecdotal.<sup>33</sup>

Strategies for mitigating risks and for meeting targets should address (as relevant):

- the registrant’s own facilities and operations,
- its transportation and distribution system (which may be under Scope 1 or 3),
- engagement with suppliers to improve efficiency in the supply chain (especially for large manufacturers and distributors), and
- product or service end use, including the efficiency of energy-using products.

Strategic energy management is especially important to enable effective management and tracking of direct energy use and emissions from a company’s operations, including from industrial processes and large building management.<sup>34</sup> Product energy-efficiency (or emissions for fossil fuels) is even more important for some manufacturers and industries, but

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<sup>32</sup> Lucas Davis & Catherine Hausman, Energy Institute at HAAS, Who Will Pay for Legacy Utility Costs? (March 2022). available at <https://haas.berkeley.edu/wp-content/uploads/WP317.pdf>.

<sup>33</sup> Ungar & Whitlock, *supra* note 6.

<sup>34</sup> David Goldstein & Amanda Levin, Natural Resources Defense Council, The Strategic Value of Industrial SEM in Limiting Climate Pollution (August 2017). available at [https://www.aceee.org/files/proceedings/2017/data/polopoly\\_fs/1.3687856.1501159039!/fileserver/file/790255/file/ename/0036\\_0053\\_000057.pdf](https://www.aceee.org/files/proceedings/2017/data/polopoly_fs/1.3687856.1501159039!/fileserver/file/790255/file/ename/0036_0053_000057.pdf).

the product “handprint” (as discussed above) can also be significant, especially for energy-efficiency services and tools.

## THE FINAL RULE SHOULD INCLUDE REPORTING ON CLIMATE GOALS INCLUDING ENERGY USE AND EFFICIENCY TARGETS

Far fewer registrants have energy goals than have carbon emission goals,<sup>35</sup> but we find that setting energy use or energy-efficiency targets and tracking progress toward meeting them is important to focus management attention on this core mitigation strategy as well as connecting mitigation to costs and benefits. Energy-efficiency targets usually should already be included in the energy usage targets mentioned in 1506(a)(1), typically intensity-based per (b)(2), but in some cases registrants adopt other related metrics, including the amount of investment in energy-efficiency measures. Specifying the scope ((b)(1)) is very important, as goals often only include portions of a registrant’s energy use. As for the reporting above, the SEC should encourage industries to adopt common metrics to make targets and progress easier to compare for similar registrants. SASB industry-specific standards could be helpful for this purpose too.

Reporting on a strategy to meet the goals is discussed in the section above.

## CONCLUSION

The Commission’s authority to set requirements for climate-related financial disclosures is an important tool for protecting investors, the environment, and the public. Disclosure rules that provide consistent, comparable, and reliable information on climate risk to investors are necessary and appropriate for the public interest because existing disclosures are inconsistent and inadequate. The proposed rule will also promote efficient markets and clear-eyed competition in the midst of the climate crisis. ACEEE believes that the Commission has built a good framework for climate-related financial disclosure rules but that it can be improved by the inclusion of clear reporting on energy-efficiency measures and metrics both in disclosures and transition plans, and by the addition of guidance on reporting indirect handprint effects of emissions resulting from users of registrants’ products

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<sup>35</sup> World Wildlife Fund, Power Forward 4.0: A progress report of the Fortune 500’s transition to a net-zero economy (June 2, 2021). *available at* <https://www.worldwildlife.org/publications/power-forward-4-0-a-progress-report-of-the-fortune-500-s-transition-to-a-net-zero-economy>.

and services. ACEEE thanks the Commission for the opportunity to contribute these comments and improve the final rule.