Chevron

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January 30, 2018

Via E-mail

Director of Research
2017 Public Comment Period
Sustainability Accounting Standards Board
1045 Sansome St., Suite 450
San Francisco, CA 94111

RE: Public Comments on the Exposure Drafts of the Proposed Changes to the Standards; Extractives & Minerals Processing Sector

We appreciate the opportunity to provide feedback regarding the proposed changes to the provisional standards of the Sustainability Accounting Standards Board (SASB). The comments below are specific to the current Exposure Draft document for the Extractives & Minerals Processing Sector and include comments on the previous Exposure Draft that were not fully addressed. They are, however, not intended to be an exhaustive collection of our thoughts or concerns related to the Exposure Draft document. The feedback contained herein, which largely addresses technical and usefulness concerns, is intended to continue the dialogue that we have had – and appreciate having – with SASB on these subjects. We hope to proceed further with that conversation and therefore may raise additional thoughts and concerns related to these subjects and others at any future time.

We have sought to organize our feedback in the most efficient, usable way possible and therefore we include our thoughts on both a general level, as well as on a metric level, below. By providing these comments and suggestions, Chevron in no way means to imply any endorsement of the Exposure Draft. Moreover, the enclosed comments are not intended as a commitment to provide any specific disclosure since we believe strongly that disclosure must be flexible and take into account individual company facts and circumstances.

General Comments on the Proposed Changes and the SASB Standards

Chevron supports the proposed change that would clarify under "Determination of Materiality" that issuers may disclose sustainability information in non-SEC filings in a separate standalone publication, such as a company's corporate responsibility report. Individual companies are best suited to determine what information is "material," under the long-standing U.S. Supreme Court definition of that term, and whether to disclose this information in U.S. Securities and Exchange (SEC) financial filings. Chevron further supports SASB's inclusion of the "Determination of Materiality" section in the introduction of the report. Moreover, to the extent that sustainability information is "material" within the long-standing meaning of securities laws, disclosure of that information is already required. However, Chevron has concerns that SASB's goal of comparable and consistent company-by-company reporting of sustainability information may not and, perhaps cannot, be met because each company is unique and what may be relevant for one company may not be relevant for another.

Chevron remains concerned with how SASB intends to integrate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This includes: 1) reporting of results and assumptions for sensitivity analyses, which encourage a focus on a future, very uncertain set of risks that are of less near-term impact in making investment decisions than the more immediate risks that companies such as ours manage every day, and 2) the application of targets.

A related concern is that the focus on granular metrics rather than the more substantial risks that companies such as Chevron manage every day, may cloud investors' ability to prudently differentiate company risk exposure and risk management performance. While this level of specificity might be warranted in other documents, we do not believe it is appropriate for financial filings. Indeed, the metrics in the SASB standards are not appropriate for disclosure in SEC financial filings because the indicators may not be "material" under the long-standing U.S. Supreme Court definition of that term. In other words, investors might lose their view of the forest because of the intensive focus on individual trees.

Additionally, many of the metrics may not be indicators of salient risks. Investors are best served by understanding a company's risk management approach and having confidence in a robust risk management process. Companies like Chevron maintain a system of corporate policies, processes and systems, behaviors and compliance mechanisms to manage safety, health, environmental, reliability and efficiency risks; to verify compliance with applicable laws and policies; and to respond to and learn from unexpected incidents. In addition, at companies like Chevron, the Board of Directors and Board committees oversee risk management policies and processes to determine if appropriate risk management systems are employed throughout the company. As a separate, but similar note, while the SASB Standards are drafted with investors in mind, the reporting guidance may set unrealistic expectations among other stakeholders, such as ESG rating and ranking agencies, which may expect companies to report to all of these metrics and/or use these metrics as the basis for scoring.

To be clear, Chevron is a proponent of transparency in sustainability reporting. We have been reporting on sustainability information in our printed corporate responsibility reports and on Chevron.com since 2002. We have been reporting to the IPIECA/API/OGP sustainability reporting guidance since it was first issued in 2005, and currently report to all 34 indicators in the 2015 edition of the guidance. In addition, we currently voluntarily report information aligned with nine of 11 recommended disclosure categories in the TCFD draft reporting framework. Chevron believes that companies are in the best position to assess their diverse stakeholders' needs, including those of its investors, and to determine priority issues for sustainability reporting. It is important that companies remain able to prioritize sustainability issues, among other risks they manage, and make their own determinations about what to disclose during their annual sustainability reporting processes. Indeed, voluntary sustainability reporting has the advantage of being highly flexible and tailored to the particular circumstances of each company and the interests of its particular shareholders and other stakeholders.

Chevron also remains concerned with several metrics that were unchanged following the initial public comment period that call for incremental disclosures of proved and probable reserves. These metrics include: (a) Biodiversity Impacts (EM0101-11), (b) Security, Human Rights, and the Rights of Indigenous Peoples (EM0101-12, TA04-04-01), and (c) Business Ethics &

Payments Transparency (EM0101-20). Chevron does not believe that our investors would benefit from the disclosure of this incremental reserves detail. Chevron's reserves reporting is based exclusively on the SEC rules which reflect existing economic conditions, operating methods, and government regulations. Disclosure of the kind sought by SASB would be detrimental and potentially misleading to investors as it focuses on risks of future hypothetical changes to the political or regulatory environment. These incremental disclosures of reserves in specific geographic areas also are more granular than those required under SEC rules and create competitive harm to Chevron regardless of whether competitors have similar disclosure requirements. In recommending disclosure, any standard setter must realize that the primary audience is the investor community.

The SEC rules issued in 2009 specifically limited the disaggregated reporting of reserves to minimize competitive harm. In addition, the SEC recognized that disclosure that is too detailed may detract from the overall disclosure. As a result, they revised the definition of the term "geographic area" to mean (1) by individual country; (2) by groups of countries within a continent; or (3) by continent. Additionally, to reduce competitive harm, a registrant need not provide disclosure of reserves in a country containing 15% or more of the registrants proved reserves if the government prohibits such disclosure. If the SEC is satisfied that investors could accept reserves by continent as satisfactory, in no case would reserves in certain sensitive areas be relevant. Providing more granular disclosures of reserves as proposed under SASB's biodiversity, rights of indigenous peoples, and payment transparency topics is going far beyond the SEC's requirements and would result in competitively harmful disclosure of reserves by country or even individual field. Before requiring companies to provide commercially-sensitive information that could harm a company's business, a standard setter must see a strong fundamental need for the information to investors.

These proposed incremental reserves disclosures are also based on the faulty premise that energy development in such areas cannot be done in a way that mitigates these risks. Prior to a company gaining exploration, appraisal and eventually development permits (if the first project phases are successful) in all sensitive locations, registrants must meet strict regulatory requirements. For example, prior to conducting exploration in the offshore/onshore of the Alaska North Slope, the Caspian Sea, and Australia, companies typically have to conduct numerous biodiversity, protected species, water quality, air quality, antiquities/cultural surveys and other environmental/social impact assessment studies and develop potential mitigation plans for spills or other protective measures. This information must then be submitted to multiple state and federal authorities with their plan of activities before permits are granted. Any incremental costs for mitigations or changes to project designs and operating costs are included in the project economics, and ultimately flow into the calculation of potential reserves. Even if permits are granted, companies look at all of this closely and assess their risk exposure and project benefits before making the final decision to go forward. As a result, we believe that additional disclosures of reserves for these assets would be potentially misleading to investors.

Chevron also has two more global concerns about the metrics as drafted. First, quantifying, estimating and verifying environmental and social risks is highly complex. Many metrics in the SASB Standards attempt to quantify issues that are nearly impossible to quantify or assure. In doing so, SASB asks issuers to use questionable and imperfect measures that do not meaningfully measure risk and are not decision-useful for investors. Second, many terms used in the metrics go undefined. This is an impediment to SASB's goal to provide information that can be compared between companies. Without definitions for terms, there is a risk that they will not be consistently applied, therefore making it impossible or misleading to use the disclosures toward SASB's intended purpose to compare companies.

Chevron appreciates the opportunity to engage SASB in this discussion regarding the Standards and the specific comments herein represent only one part of that conversation.

Specific Comments on the Proposed Changes to the SASB Standards

Oil & Gas Exploration & Production

Greenhouse Gas Emissions

Generally, the metrics do not provide information about how risks are being managed (e.g., through investment in capital projects to reduce emissions).

TA04-02-01 [Amount of gross global Scope 1 emissions from: (1) combustion, (2) flared hydrocarbons, (3) process emissions, (4) directly vented releases, and (5) fugitive emissions/leaks]

- Chevron is concerned that definitions are not sufficiently clear in the technical protocol. Without consistently applied definitions, results may not be comparable between companies. Indeed, the definitions in the technical protocol do not clearly state how each source of emissions should be reported. For example, vented emissions from glycol dehydrators could be considered "process emissions" or "venting of hydrocarbons." Chevron recommends aligning the definitions in the technical protocol to Table 1-1 "Proposed Source Classification Approach" in the 2009 API Compendium on pages 1-5, which is more comprehensive and clear.

EM0101-03 [Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets]

- Generally speaking, absolute emission reduction targets are not always effective at reducing emissions due to fluctuations in production portfolios. Our expertise and long history in the oil and gas sector shows that setting inflexible portfolio targets, such as a predetermined percentage of renewables within our asset base, could limit our ability to select the most profitable assets, and therefore is not in the best interest of our investors.

Water Management

Chevron has an observation that applies more broadly over this category of metrics. Water is a local issue. If a company only has a few locations where there are water acquisition or disposition risks, then it may not be salient to their global operations as it may represent but a small portion of their portfolio.

EM0101-05 [Total fresh water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress]

- Chevron is concerned that this metric, as currently written, does not call for the data that would accurately yield the conclusions it seeks. First, although a company's ability to acquire and use fresh water could have an impact on its operations, the risks the oil and gas industry faces vary depending on the type of operation (e.g., the water that is brought to the surface when extracting oil and gas can be reused, thus reducing the amount of fresh water needed). Second, Chevron is also concerned that this metric, as written, does not provide an accurate indicator of risk. The size of a company may impact total freshwater withdrawn (i.e., the bigger the company, the more water they use) and thus this metric may not in and of itself be an indicator of risk.
- The term "percentage recycled" does not provide information on water acquisition risks.

EM0101-06 [Volume of produced water and flowback generated; percentage (1) discharged, (2) injected, (3) recycled; hydrocarbon content in discharged water]

- Chevron is concerned that this metric, as written, does not provide an accurate indicator of risk. Certain oil fields generate more produced water than others and thus this metric may not in and of itself be an indicator of risk.

EM0101-07 [Percentage of hydraulically fractured wells for which there is public disclosure of all fracturing fluid chemicals used]

- Chevron is concerned that this metric fails to provide adequate guidance as to how the risks of impacting water quality are managed. Disclosure and risk management are two different things. Disclosure rates do not inform an investor of risk.

TA04-03-01 [Percentage of hydraulic fracturing sites where ground or surface water quality deteriorated compared to a baseline]

- Chevron supports the proposed change to the Exposure Draft document. We remain concerned, however, that the indicator may not account for other influences on ground and surface water quality unrelated to Chevron's operations, the oil and gas industry, or industry in general. Measuring ground or surface water quality and any impacts is complicated and Chevron suggests greater clarity is needed here.
- The proposed change fails to make clear why a "maximum of four" water sources may be sampled, as stated in the technical protocol under #40. There may be situations where more sources need to be sampled. One example of such a situation is at a site where there are multiple aquifers in addition to multiple surface water sources and potential for impacts from other industries and uses. Finally, it is not clear if it would be permissible to leverage samples or data available from other sources.

Biodiversity Impacts

EM0101-10 [Number and aggregate volume of hydrocarbon spills, volume in Arctic, volume near shorelines with ESI rankings 8-10, and volume recovered]

- Chevron is concerned that this metric, as currently written, does not call for the data that would accurately yield the conclusions it seeks. For example, the number and aggregate volume of spills does not provide information about whether there were individual spills that presented greater risk. Moreover, spills in the Arctic only represent one region and are not representative of global risk, particularly for companies who do not operate in the Arctic. Further, this metric does not provide information on biodiversity risks or risk management. Not all spills result in impacts to biodiversity.
- Chevron is also concerned that there are no definitions provided for "near shorelines". Without consistently applied definitions, results may not be comparable between companies.

EM0101-11 [(1) Proved and (2) probable reserves in or near sites with protected conservation status of endangered species habitat]

- Chevron is concerned because granular information about the location of reserves is treated as confidential, sensitive competitive information and not divulged.
- Chevron is also concerned that there are no definitions provided for "near". Without consistently applied definitions, results may not be comparable between companies.
- Chevron also has concerns related to this metric that are discussed above in the General Comments section.

Security, Human Rights and Rights of Indigenous Peoples

EM0101-12 [(1) Proved and (2) probable reserves in or near areas of conflict]
- Chevron is concerned that proximity to conflict is not an adequate proxy for material risk presented by conflict. Risk associated with conflict may be dependent on many other variables, including risk management practices developed and applied specifically to address conflict.
- Chevron is concerned because granular information about the location of reserves is treated as confidential, sensitive competitive information and not divulged.
- Chevron is concerned that there is no definition provided for “near” and that the metric, as written, creates subjectivity for the term. Without consistently applied definitions, results may not be comparable between companies.
- Chevron also has concerns related to this metric that are discussed above in the General Comments section.

TA04-04-01 [(1) Proved and (2) probable reserves in or near indigenous land]
- Chevron’s concerns related to this metric are similar to those elsewhere in this section. Chevron is concerned that proximity to indigenous lands is not an adequate proxy for material risk presented by investing in those lands. Risk associated with indigenous lands is primarily dependent on risk management practices developed and applied specifically to address investment in or near indigenous lands.
- Chevron is concerned because granular information about the location of reserves is treated as confidential, sensitive competitive information and not divulged.
- Chevron also has concerns related to this metric that are discussed above in the General Comments section.

EM0101-14 [Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict]
- Chevron’s concerns related to this metric are similar to those elsewhere in this section. Potential material risk stemming from human rights issues, including indigenous peoples’ rights, and conflict is context/asset specific. A sound material risk assessment would need to account for exposure across the portfolio and weight accordingly. Associated engagement and due diligence practices are essentially a secondary risk mitigant, and, again, highly dependent on location. For example, even in geographies with high potential human rights risk, discussion of company implementation of the Voluntary Principles on Security and Human Rights or upholding the ILO core conventions is only relevant if those are the specific human rights issues driving the higher risk context.
- Chevron also suggests that this metric should exclude joint venture partners; where a company is the majority owner/operator, that company’s practices and policies generally govern operations by default.

Employee Health and Safety

TA04-05-01 [(1) Total Recordable Injury Rate (TRIR), (2) Fatality Rate, (3) Near Miss Frequency Rate and (4) Average hours of Health, Safety, and Emergency Response Training for (a) full-time employees, (b) contract employees, and (c) short-service employees]
- Chevron is concerned that the proposed metrics, as written, for Average hours of Health, Safety, and Emergency Response Training for (a) full-time employees, (b) contract employees, and (c) short-service employees are too granular, and do not provide decision-useful information on salient health and safety risks.

- Moreover, Chevron is concerned by the variability in how companies may define (1) "short-service" or (2) "contract employee." Without consistent definitions, each company's disclosures may not be comparable.

Business Ethics and Payments Transparency

EM0101-20 [(1) Proved and (2) probable reserves in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index]

- Chevron is concerned that there is not sufficient clarity as to how "risk" is being measured by this metric and whether there is a threshold (i.e., 20% = more risky)? It is also unclear what high risk looks like. The 20 lowest seems to be an arbitrary cut-off point. For example, what if one company has 30% of proved or probable reserves in the 20 countries with the lowest rankings, but another company has 75% of proved or probable reserves in countries with the 40 lowest rankings? It remains unclear to Chevron how this is comparable or decision-useful information for an investor.
- Chevron is also concerned that the Transparency International's (TI) Corruption Perceptions Index (CPI) is a subjective measure of corruption in 176 countries and territories in the world. While TI provides the *sources* they use to construct their rankings, they offer no insight into their *methodology* for ranking countries or how this may change on an annual basis. Further, while the CPI may be useful for academics and researchers conducting cross-national analyses on governance, Chevron does not believe it is an appropriate barometer to use to measure investment risk.
- Chevron is concerned because granular information about the location of reserves is treated as confidential, sensitive competitive information and not divulged.
- Chevron also has concerns related to this metric that are discussed above in the General Comments section.

Reserves Valuation and Capital Expenditure

TA04-08-01 [Sensitivity of hydrocarbon reserve levels to future price projection scenarios that account for a price on carbon emissions]

- Chevron does not support inclusion of price sensitivity data related to hydrocarbon reserves in the standard for the following reasons:
- First, reporting on possible performance in a hypothetical future scenario is not useful. Given the ongoing level of demand for oil and gas even in a carbon-constrained scenario, and the fact that changes in regulation and the resultant impacts on demand will manifest over time, the oil and gas industry in general, and companies like ours in particular, will be able to adapt investment patterns and portfolios to these policy and demand circumstances. Investors are best served by understanding the processes companies such as ours have in place to assess and manage risks, incorporate those risks into decision-making and capital allocation, and adjust as necessary to respond to a changing environment. As an example, Chevron already considers carbon prices in annual reserve calculations for jurisdictions with enacted regulation.
- Second, reporting scenario analyses are likely not helpful to investors because these analyses are inherently uncertain and subjective, and can incorporate a near-infinite possible combination of factors, including regulations, prices, investments, divestments, and hurdle rates. Results of these analyses (1) are not comparable because they are based on companies' unique assumptions that are too varied, subjective and uncertain to allow investors to accurately differentiate between companies; (2) may reveal confidential information, including proprietary assumptions regarding price forecasts, investment and

divestment plans, and hurdle rates, which could put companies such as ours at a competitive disadvantage; (3) depict potential future scenarios that may never come to fruition, in part because any transition from fossil fuels will be gradual and take time, and also because it would be impossible for companies such as ours to meaningfully guess at and then convey to investors the myriad regulations that may occur in the future in the countries in which we operate now or might operate in the future, and the various investment alternatives/responses the company could choose to make as a result.

- Third, SEC regulations already permit an optional reserves sensitivity table, including assumptions behind the various estimates. This table permits companies to disclose additional information to investors, such as the sensitivity that oil and gas reserves have to price fluctuations. Few, if any, companies include such tables because it would cause confusion, harm comparability with other companies, is costly to produce, and is of limited use to investors. Price sensitivity is extremely confidential information for companies. The disclosure of the commodity price that would cause a company to go below break-even, or below break-even in a particular geographical area, would expose the company and projects to great risk of competitive harm. The risk of increased carbon emissions pricing is no different than how companies risk other aspects of future capital and operating costs, and companies would take measures to adjust reserve volumes at the correct time and for the correct amount once those variances were known in line with SEC regulations.
- Fourth, the intrinsic value of most publicly-traded oil and gas companies is based primarily on the valuation of proved reserves, 90 percent of which are expected to be monetized in 10 to 15 years, well before any such climate-related scenarios would likely have meaningful impacts.
- Additionally, this information is already required if it is “material” per the longstanding definition.
- Lastly, most of our investors seek assurances with regard to our process to address these issues, not a numerical indicator or output of results.

EM0101-23 [Estimated carbon dioxide emissions embedded in proved hydrocarbon reserves]

- Chevron is concerned that this metric introduces information that is not relevant to the subject matter, as it does not have a basis on the valuation. Moreover, should they want to, people may perform the required math to ascertain embedded carbon from reserves figures already published.

TA04-09-01 [Amount invested in renewable energy, revenue generated by renewable energy sales]

- This metric is best addressed through a qualitative narrative in company-specific disclosures. An example of such a source is Chevron’s voluntary disclosure, *Managing Climate Change Risks: A Perspective for Investors.*

Oil & Gas Midstream

Greenhouse Gas Emissions

TA04-11-01 [Gross global Scope 1 emissions, percentage methane, percentage covered under a regulatory program]

- Chevron’s concerns regarding these metrics are like those detailed above for TA04-01-01 under the “Oil & Gas Exploration & Production” section of this comment letter and, therefore, it incorporates them here.

EM0102-02 [Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets]

- Chevron's concerns regarding these metrics are like those detailed above for EM0101-03 under the "Oil & Gas Exploration & Production" section of this comment letter and, therefore, it incorporates them here.

Ecological Impacts

EM0102-05 [Percentage of land owned, leased, and/or operated within areas of protected conservation status or endangered species habitat]

- Chevron is concerned that this metric does not provide information about how ecological impact risks are being managed.

EM0102-06 [Terrestrial acreage disturbed, percentage of impacted area restored]

- Chevron is concerned that this metric does not provide information about local implications of land disturbance.

EM0102-07 [Number of aggregate volume of hydrocarbon spills, volume in Arctic, volume in Unusually Sensitive Areas (USAs), and volume recovered]

- Chevron is concerned that this metric, as currently written, does not call for the data that would accurately yield the conclusions it seeks. The metric does not provide information on ecological risks or risk management. Not all spills result in impacts to ecology. Also, the number and aggregate volume of spills does not provide information about whether there were individual spills that presented greater risk. Moreover, spills in the Arctic only represent one region and are not representative of global risk, particularly for companies who do not operate in the Arctic.

Oil & Gas Refining & Marketing

Employee Health and Safety

EM0103-09 [(1) Total Recordable Injury Rate (TRIR), (2) Fatality Rate, and (3) Near Miss Frequency Rate for (a) full-time employees and (b) contract employees]

- Chevron's concerns regarding these metrics are like those detailed above for TA04-05-01 under the "Oil & Gas Exploration & Production" section of this comment letter and, therefore, it incorporates them here. Generally speaking, Chevron is concerned by the variability in how companies may define certain terms. Without consistent definitions, each company's disclosures may not be comparable. Moreover, Chevron is concerned that the proposed metrics, as written, are too granular, and do not provide decision-useful information on salient health and safety risks.

Management of the Legal and Regulatory Environment

TA04-16-01 [Discussion of corporate positions related to government regulations and/or policy proposals that address environmental and social factors affecting the industry]

- Chevron's concerns regarding these metrics are like those detailed above for TA04-10-01 under the "Oil & Gas Exploration & Production" section of this comment letter and, therefore, it incorporates them here.

Conclusion

Chevron appreciates the opportunity to provide these thoughts and comments. We welcome and look forward to continuing the conversation on these subjects and others. Should you have any questions, please contact me.

Sincerely,