



Action Report

Environment: Climate Change

Chevron

May 5, 2011

Ticker	Exchange	Meeting Date	Record Date	Annual Meeting Location
CVX	NYSE	5-25-11	4-1-11	San Ramon, California

Agenda	
Item	Proposal
1	MGT: Elect directors
2	MGT: Ratify selection of auditors
3	MGT: Advisory vote on executive compensation
4	MGT: Advisory vote on frequency of future advisory vote on executive compensation
5	SH: Nominate independent environmental expert to board
6	SH: Establish board committee on human rights
7	SH: Include sustainability as executive performance measure
8	SH: Report on host country selection criteria
9	SH: Report on climate change risks
10	SH: Report on hydraulic fracturing
11	SH: Report on offshore oil well risks

Si2 Briefing

[Environment: Climate Change](#)

Si2 Special Report

[Chevron and Investor Pressures on Sustainability Issues](#)

Report Author

[Peter DeSimone](#)

Links

[Proxy Statement](#)

Resolved Clause

Resolved: Investors request Chevrans' Board of Directors to prepare a report to shareowners on the financial risks resulting from climate change and its impacts on shareowner value over time, as well as actions the Board deems necessary to provide long-term protection of our business interests and shareowner value. The Board shall decide the parameters of the study and summary report.

Lead Proponent

Christopher Reynolds Foundation

Vote History

This same proposal received 8.5 percent support in 2010.

Summary

The proponent commends Chevron for its bold statements on energy challenges and climate change. However, it notes, other companies are doing more to brief investors in annual 10-K statements, as required by the Securities and Exchange Commission, and elsewhere on material risks related to climate change. It believes Chevron should address its deficiencies by producing a special report for shareholders. Chevron feels the proponent's request is unnecessary as it already answers the Carbon Disclosure Project's annual questionnaire and discloses climate-related risks in its 10-K statement.

I. Chevron and Environment: Climate Change

For a summary of the company's operations and financials, see Si2's special supplement to this report: [Chevron and Investor Pressures on Sustainability Issues](#). Key takeaways from the supplement readers should note are:

- Chevron's board Public Policy Committee, which includes oversight of climate change issues, among others, and the members of this committee.
- Chevron's director qualification standards, which includes environmental expertise among the qualities it seeks in director nominees.
- Chevron's corporate officer dedicated to health, environment and safety.
- Executive pay links to several, broad policies related to management of sustainability issues.
- The risks related to climate change it lists in its 10-K statement.
- Chevron's environmental policies, management systems and reporting practices.
- Chevron's energy strategy and portfolio.

This report is organized based on the proponent's request for information, so shareholders can use it to see if they are satisfied with Chevron's response. It draws information from [Chevron's 2010 response to the Carbon Disclosure Project \(CDP\)](#), as well as its [2010 10-K filing](#), reviewed in the supplement to this report.

Emissions management: Chevron manages its emissions through the enterprise-wide [SANGEA](#) energy and emissions estimating system, which it began developing in 2000 and completed implementation of by 2001. SANGEA is now owned by the American Petroleum Institute (API) and is widely used throughout the industry to track emissions. It complies with the Greenhouse Gas (GHG) Protocol, which Chevron staff contributed to in development and is the cited protocol for reporting by the Global Reporting Initiative. SANGEA allows Chevron to account for and report all known sources of carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O) emissions, and to estimate energy and fuel use. It has enabled Chevron to compute a substantial portion of its GHG emissions—Scopes 1 and 2—under the GHG Protocol and to set targets. These are displayed in the table below.

Chevron GHG Emissions Reduction Goals and Performance*						
Target Type	Target Value [#]	Base year	Emissions in base year [#]	Target Year	Target met?	Comment from Chevron
Total GHG emissions from operations	60,500,000	2009	57,400,000	2009	Yes	In 2009, our total emissions were 57.4 million metric tons, better than our goal of 60.5 million metric tons.
	59,000,000	2010	-	2010	Target ongoing	Our preliminary goal for 2010 is 59.0 million metric tons, lower than our 2009 goal though higher than the 2009 actual emissions.
*Scopes 1 and 2 (direct emissions and emissions from purchased electricity)					[#] Metric tons of CO ₂ -e	
Source: Chevron's 2010 response to the Carbon Disclosure Project (CDP)						

Since 2001, Chevron's efforts to reduce its emissions have been guided by its *Our Action Plan on Climate Change* document. The plan calls for "reducing emissions and increasing energy efficiency; investing in research, development and improved technology; pursuing business opportunities in promising, innovative energy technologies; and supporting flexible and economically sound policies and mechanisms that protect the environment." Since then, Chevron has reported on its tangible emissions reductions, including:

- Investing more than \$3.8 billion in renewable energy technologies since 2002 and launching plans to spend another \$2.3 billion between 2010 and 2012.
- Reducing flaring and venting at its facilities, which have reduced its annual emissions by 1.1 million metric tonnes of CO₂ equivalent.
- Developing carbon sequestration technologies at several major natural gas investments off the northwestern coast of Australia, including the Gorgon Project, which will include the world's largest commercial-scale greenhouse gas storage site. These steps, Chevron says, are anticipated to reduce its annual emissions by 3.4 million metric tonnes of CO₂e.

Since the launch of its initial guiding document on climate change in 2001, Chevron has since produced its [7 Principles for Addressing Climate Change](#). It reviews much of the information revealed in its answers to the CDP, focusing on its strategies.

Physical risks: Chevron says that physical risks to its operations associated with climate change are hard to predict, but it continues to monitor research and evolve its strategies to adapt to these challenges. Most recently, it says, it has taken note of the IPCC Fourth Assessment Report and US CCSP's Assessment Report (SAP) 4.5. The report points to a wide range of risks related to demand and supply of energy and infrastructure from extreme storms, disruption of water supply and changes in weather patterns affecting crops.

One area that appears to be a clear risk is the increasing incidence of severe hurricanes in the Gulf of Mexico, where Chevron is the largest producer of oil and gas. It notes that major hurricanes (those of category three and above on the Saphir-Simpson Scale) "have the potential to cause physical damage" to its facilities and the demand for energy. Other physical risks might have offsets, it says. For example, it notes, energy crops "will be affected by the availability of irrigation water and the presence of hurricanes, but switchgrass will be able to compete with traditional crops if precipitation increases." Renewable energy, the report says, has equal risks of being disrupted or seeing a boom, depending on location. In addition, the "occurrence of unusual climatic conditions can disrupt water supply for energy dedicated facilities, generating competition for water access and influencing siting decisions."

Water scarcity: Chevron says it began to deploy guidance on water use and related reporting in 2009 and has continued implementation in 2010. The guidance is intended to identify areas of potential supply risk, as well as water conservation, reuse and other efficiency strategies. It says it already has embarked on several water conservation projects in the past two years.

- **Regulatory risks**—Chevron acknowledges that present and further regulation of greenhouse gas emissions could increase its operational costs and reduce demand for its products. It highlights existing greenhouse gas emissions limits in jurisdictions where it does business, including the European Union and New Zealand, and it points to moves by the U.S. Environmental Protection Agency (EPA) to implement two additional regulations under the Clean Air Act for new light-duty vehicles and new or modified stationary source facilities with greenhouse gas emissions that exceed 75,000 tons per year of carbon dioxide equivalent. In addition, it notes the EPA plans to implement additional regulations on greenhouse gases for utilities in May 2012 and for refineries in November 2012. It also points out that California adopted regulations implementing the cap and trade program requirements of the state's Global Warming Solutions Act (AB32) in December 2010; the first compliance period of the cap-and-trade program begins in 2012 and ends in December 2014. It says:

These and other greenhouse gas emissions-related laws, policies and regulations may result in substantial capital, compliance, operating and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary by

jurisdiction depending on the laws enacted in each jurisdiction, the company's activities in it and market conditions. The company's exploration and production of crude oil, natural gas and various minerals such as coal; the upgrading of production from oil sands into synthetic oil; power generation; the conversion of crude oil and natural gas into refined products; the processing, liquefaction and regasification of natural gas; the transportation of crude oil, natural gas and related products and consumers' or customers' use of the company's products result in greenhouse gas emissions that could well be regulated. Some of these activities, such as consumers' and customers' use of the company's products, as well as actions taken by the company's competitors in response to such laws and regulations, are beyond the company's control.

The effect of regulation on the company's financial performance will depend on a number of factors including, among others, the sectors covered, the greenhouse gas emissions reductions required by law, the extent to which Chevron would be entitled to receive emission allowance allocations or would need to purchase compliance instruments on the open market or through auctions, the price and availability of emission allowances and credits, and the impact of legislation or other regulation on the company's ability to recover the costs incurred through the pricing of the company's products. Material price increases or incentives to conserve or use alternative energy sources could reduce demand for products the company currently sells and adversely affect the company's sales volumes, revenues and margins.

Business opportunities: Chevron sees ample business opportunities related to renewable energy and carbon sequestration, as well as energy efficiency. Some of the opportunities it has seized are described in management's position below, as well as in Si2's Special Report that supplements this report.

II. Proponent Position

The Christopher Reynolds Foundation points to the scientific consensus on climate change and the stark consequences Chevron and the world face—dramatic weather events, rising sea levels, drought in some areas and significant impacts on human and ecosystem health—should greenhouse gas emissions not be reduced dramatically. The proponent points to U.S. national security implications raised by the Pentagon of these risks. "In response," the proponent says, "numerous companies are proactively reducing their carbon footprints," and "Chevron is advertising on its website and in public ads many steps the company is taking to reduce greenhouse gases contributing to climate change," which the proponent commends.

At the same time, Christopher Reynolds Foundation says, investors with \$9 trillion in assets under management backing the Investor Network on Climate Risk (INCR) and with \$64 trillion in assets under management behind the Carbon Disclosure Project (CDP) "urge companies to provide full reporting on greenhouse gas emissions and full disclosure of climate risk." The SEC has even warned companies, the proponent notes, that they must in their annual 10-K filings delineate for investors any business risks related to climate change, including those concerning regulation, commercial trends, and physical challenges such as rising sea levels. Other companies, the proponent says, have answered these calls by offering in-depth analyses in their 10-K statements of climate risks for investors.

Chevron, the proponent points out, is facing many inherent risks in its business, including deep water drilling, oil sands development and hydraulic fracturing, and these "risks and related government policies may have a significant impact on our investment in Chevron." Therefore, the proponent says, "it is important for Chevron to carefully study the impacts, risks and opportunities posed by climate change for our company and its future operations to enable management to respond effectively to protect and enhance shareowner value."

For these reasons, the proponent is asking Chevron to “prepare a report to shareowners on the financial risks resulting from climate change and its impacts on shareowner value over time, as well as actions the board deems necessary to provide long-term protection of our business interests and shareowner value.” The proponent says the report should be made available to investors by September 15, 2011, and should be produced “within reasonable limits and proprietary information omitted.” It suggests the report include a risk analysis of “emissions management; physical risks of climate change on our business and operations, e.g. the impact of rising sea levels on operations, including the supply chain; water scarcity; U.S. and global regulatory risks of legislative proposals for carbon taxes and cap and trade; ‘material risk’ with respect to climate change; positive business opportunities; and reputation, brand and legal risk.”

III. Management Position

Chevron recommends that stockholders vote against the proposal, because it “already discloses material risks related to climate change and climate change regulation” in its annual report and form 10-K. “Moreover,” it says, “in light of the highly uncertain regulatory environment, disclosing speculative or immaterial risks could be misleading and could result in confusion.”

Chevron emphasizes that it is, indeed, responding to the challenges presented by climate changes. It points out that its Action Plan on Climate Change is in its ninth year of implementation and “continues to guide our activities in response to climate change in the areas of greenhouse gas (GHG) emissions reduction, energy efficiency improvement, research and development investment in innovative low-carbon energy technologies, and advocacy.” As proof of the results, Chevron notes that it has:

- Increased its emissions efficiency by 33 percent since 1992.
- Launched the Gorgon project in Australia, a carbon sequestration project.
- Become the world’s largest producer of geothermal energy with a capacity of more than 1,200 megawatts.
- Launched Catchlight Energy, a joint venture with Weyerhaeuser exploring biofuels.
- Converted countless customers to more energy efficient and renewable technologies through its Chevron Energy Solutions division.
- Implemented enhanced organizational capability and governance for carbon markets to respond to existing and potential market-based climate change regulation.

Chevron also assures shareholders that it is complying with “GHG emissions limits under the European Union Emissions Trading Scheme (ETS) and the New Zealand ETS and is preparing for the January 1, 2012, start of cap-and-trade provisions under California’s AB32.” Furthermore, it says, it “evaluates GHG emissions profiles, potential costs of carbon, opportunities for avoidance or reduction of emissions, and the potential opportunities for carbon credit generation” for all capital project and has implemented some of the industry’s best practices for GHG accounting and reporting that the proponent cites in its proposal, including participating in the CDP since 2004.

In sum, Chevron says, it “evaluates costs and opportunities under existing and potential regulation for both its current business and capital investments,” and, based on this analysis, “discloses the material risks from climate change and climate change regulation” in its annual report and 10-K. Therefore, it firmly believes the proponent’s proposal is unnecessary.

IV. Analysis

Key Points at Issue

- Has Chevron, as it asserts, addressed the proponent's disclosure requests?
- How does it stack up to its competitors on climate-related disclosure?

Chevron's longstanding commitment to respond to the CDP's questionnaire, which it has done since 2004, should be noted by shareholders. The company's CDP response was used to source information for this report and the supplement to it. Chevron's answers demonstrate some weaknesses, particularly in accounting for climate risks associated with its suppliers and in quantifying the financial implications of risks, although its disclosure practices in general exceed its industry peers.

Comparisons: The CDP hired PricewaterhouseCoopers to produce a series of reports to analyze the data CDP receives from responses to its questionnaire. One report focuses on the oil and gas sector: [Energy Sector Report: Covering Global 500, S&P 500 and FTSE 350 respondents](#). The report gives Chevron a carbon disclosure score of "80" and a "B" for its carbon performance score. Out of the 74 oil, gas and consumable fuels companies the report ranked, Chevron's grades place it seventh on carbon disclosure and tied for fifth on carbon performance. Its major U.S. competitors, **ConocoPhillips** (56 and C) and **ExxonMobil** (58 and C) scored far lower.

Voting Considerations

Shareholders will have to decide whether Chevron's present disclosures on climate risks offer satisfactory answers to the proponent's concerns.

Voting in favor: Shareholder who would like to see Chevron provide better estimates for the financial risks associated with climate change, especially for potential regulatory responsibilities, will want to vote for this proposal. Chevron highlights the unpredictability of the regulatory landscape going forward and the portions of its business at risk as a result, but does not quantify these risks for shareholders. It also does not review the potential benefits and costs of its various sources for oil and gas in this context or how renewable sources of energy measure up in comparison.

Voting against: Stockholders who believe Chevron has done a sufficient job on disclosure and evaluating risks will vote against this proposal. Clearly, Chevron is disclosing more useful information to investors than competitors, according to the evaluation by PricewaterhouseCoopers and the CDP.