Rodney’s Take

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We Will Pay as the SEC Goes Green

Anyone looking for ways that the federal government is leaning on oil and gas companies to deliver less energy need only glance at the latest regulation from the Securities and Exchange Commission (SEC). The agency is charged with protecting the public from investment fraud. The SEC requires companies that sell shares to the public to conduct annual audits, to report earnings in accordance with generally accepted accounting principles, and to notify the public of any material changes in their businesses, among other things. Now, the SEC wants companies to add another item on their to-do list: reporting climate goals and scope 1, 2, and 3 greenhouse gas (GHG) emissions.

The SEC claims it wants to require such disclosure so that investors can compare company activities more easily. I’m not buying it.

Like the Federal Reserve in its direction to banks, the SEC is asking for a measurement so that eventually those measurements can be regulated in the name of the greater good. Or at least, the greater good as judged by a majority of the SEC’s ruling committee. The proposed regulation will be a gift both to those who oppose any oil and gas exploration and production, because it is vague, and to the auto industry, because it is specific. On both counts, consumers will pay more.

The regulation calls for public companies to report scope 1 GHG emissions, those that arise from business operations; scope 2 emissions, those which suppliers and vendors emit while supporting the public companies; and scope 3 emissions, those which customers emit while using the public companies' products. Companies can figure out scope 1 emissions and, if their suppliers are big enough, likely can get decent estimates of scope 2 emissions. But scope 3? Who knows? That depends on how customers use the products. Are drivers running gas through lawnmowers, which are big carbon emitters, or plug-in hybrid cars, which use little fuel and have catalytic converters? Are consumers recycling the clamshell plastics from retail goods or throwing them away?

Public companies will estimate such things, but because the measurements are so vague, anyone who wants to challenge the estimates will be able to make a good case. This will leave companies open to claims that they misled investors. Just imagine the consultants who will offer their services to measure GHG emissions and the lawyers who will offer to sue any company for deception. Consulting and legal firms should have visions of dollar signs dancing in their heads.

As for car companies, they've sunk billions of dollars into electric vehicles and plan to spend billions more. The only problem is that American consumers haven't quite warmed up to plug-in vehicles. It's not just range anxiety, it's also the cost of upgrading a plug in the garage to handle level II charging or having more than one car moving around the driveway. For consumers who live in apartments or townhomes, it's dealing with plugging in the vehicle. But hey, if the SEC is tightening the noose around the necks of oil and gas companies (as well as others), then eventually consumers won't have much choice. As energy companies produce less, gasoline prices will rise, which will drive consumers to electric vehicles. It's a win for the car companies!

There's no question who will pay for all of this: consumers. We will pay the extra cost of compliance for the companies that must increase their SEC reporting, and we will pay the extra costs to shift transportation from gasoline to electric. Consumers and taxpayers always pay.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.