

February 25, 2015

Mike Ciskowski  
Executive Vice President and Chief Financial Officer  
Valero Energy Corporation  
One Valero Way  
San Antonio, Texas 78249

Dear Mr. Ciskowski,

We write to you to express concern about the lack of public disclosure of physical risks due to climate change at Valero's coastal refineries.

As investors who are exposed to climate change risks in our portfolios, the leading science-based nonprofit working for a healthy environment and a safer world, and the leading nonprofit working with investors, companies and public interest groups to accelerate the adoption of sustainable business practices, we have called on both policy makers and companies to take action to disclose and prepare for risks posed by climate change in addition to working to mitigate climate change.

Left unaddressed, climate change is expected to cause significant physical impacts with serious implications for investors and businesses as well as the environment. Indeed, the physical effects of climate change are already being felt. The year 2014 saw a record number of natural catastrophes, with more than 90% of the 980 events related to extreme weather and climate. These events caused total economic losses of more than \$110 billion and insured losses of more than \$31 billion.<sup>1</sup>

As noted in a letter sent to you by the Union of Concerned Scientists (UCS) on December 22, 2014 (below), to which UCS has received no response, the U.S. Securities and Exchange Commission (SEC) issued guidance in 2010 that outlines expectations from companies in reporting on "material" regulatory, physical, and indirect risks, as well as opportunities related to climate change.

It appears that Valero recognizes that climate change poses a host of risks and must be addressed. However, as detailed in the previous letter and in a new UCS report, *Stormy Seas, Rising Risks: What Investors Should Know About Climate Change Impacts at Oil Refineries*<sup>2</sup>, Valero has disclosed no physical risks from climate change in its SEC Form 10-K filing, despite the vulnerability of its coastal refineries. The report finds apparent risk from the physical impacts of climate change, particularly enhanced storm surge and sea level rise, at Valero's Meraux, Louisiana refinery.

As you are aware, Hurricane Katrina which caused a spill at the Meraux facility in 2005, then owned by Murphy Oil, and the facility again saw damages from the 2008 hurricane season.

---

<sup>1</sup> 2015 Munich Re, Geo Risks Research, NatCatSERVICE. As of January 2015.

<sup>2</sup> Union of Concerned Scientists. 2015. *Stormy Seas, Rising Risks: What Investors Should Know About Climate Change Impacts at Oil Refineries*. Online at [ucsusa.org/risingrisks](http://ucsusa.org/risingrisks).

Murphy Oil disclosed climate-related physical risks at this facility; however, Valero has failed to do the same since it acquired the facility in 2011. Risk of such events is likely to grow in the future. Diminished refining utilization rates, downtime or closure of facilities due to direct damage, danger to employees, releases of environmental contamination, disruption in supply chains and distribution centers, and/ or power supply due to storm surge or sea level rise could have a material impact on production and related cash flows.

We would welcome the opportunity to hear your response and speak with you about the UCS report and this inquiry. Please contact Andrew Logan, Director, Oil and Gas Program at Ceres at 617-247-0700 ext. 133 or [logan@ceres.org](mailto:logan@ceres.org) and Gretchen Goldman, Lead Analyst in the Center for Science and Democracy at the Union of Concerned Scientists, at 202-331-6942 or [ggoldman@ucsusa.org](mailto:ggoldman@ucsusa.org). We will share your letter with the other signers or coordinate a phone call if you wish. Thank you for your time and attention to these important issues.

Sincerely,

Bennett Freeman  
Senior Vice President, Sustainability Research and Policy  
Calvert Investments

Stephen Viederman, Chair  
Finance Committee  
Christopher Reynolds Foundation

Julie Fox Gorte, Ph.D  
Senior Vice President for Sustainable Investing  
Pax World Management LLC

Timothy Smith  
Director of Environmental Social and Governance Shareowner Engagement  
Walden Asset Management

Andrew Logan  
Director, Oil and Gas Program  
Ceres

Andrew Rosenberg, PhD  
Director  
Center for Science and Democracy  
Union of Concerned Scientists

December 22, 2014

Mike Ciskowski  
Executive Vice President and Chief Financial Officer  
Valero Energy Corporation  
One Valero Way  
San Antonio, Texas 78249

Dear Mr. Ciskowski,

I am writing to you on behalf of investors and the Union of Concerned Scientists (UCS). UCS is a leading science based non-profit working to integrate science into public decision making.

In particular, I am writing to inquire about Valero's policies and disclosures regarding financial risks related to climate change. The Securities and Exchange Commission (SEC) recognized the financial impacts of climate change when it issued Interpretive Guidance on climate disclosure in February 2010, responding to more than 100 institutional investors representing \$7 trillion seeking regular reporting from companies on these risks.

The Guidance outlines expectations from companies in reporting on "material" regulatory, physical, and indirect risks, as well as opportunities related to climate change. These expectations include the following related to climate change impacts on severe weather.

"Significant physical effects of climate change, such as effects on the severity of weather (for example, floods or hurricanes), sea levels, the arability of farmland, and water availability and quality, have the potential to affect a registrant's operations and results.

For example, severe weather can cause catastrophic harm to physical plants and facilities and can disrupt manufacturing and distribution processes.

...

Possible consequences of severe weather could include:

For registrants with operations concentrated on coastlines, property damage and disruptions to operations, including manufacturing operations or the transport of manufactured products;

...

Registrants whose businesses may be vulnerable to severe weather or climate related events should consider disclosing material risks of, or consequences from, such events in their publicly filed disclosure documents"<sup>3</sup>.

Sea level rise (SLR) projections from the National Oceanic and Atmospheric Association (NOAA) are that the Gulf of Mexico is likely to see at least one to three feet of SLR in the next 100 years, with some coastal areas potentially seeing up to 1.7 feet in the next 25 years<sup>4,5</sup>. Galveston, Texas has already experienced more than a foot of sea level rise in the past 50 years.<sup>6</sup> Added to the SLR risk posed to coastal facilities is storm surge which has been

---

<sup>3</sup> <http://www.sec.gov/rules/interp/2010/33-9106.pdf>

<sup>4</sup> <http://stateofthecoast.noaa.gov/vulnerability/localthreat.html>

<sup>5</sup> Climate Central custom data provided to the Union of Concerned Scientists

<sup>6</sup> [http://tidesandcurrents.noaa.gov/sltrends/sltrends\\_station.shtml?stnid=8771510](http://tidesandcurrents.noaa.gov/sltrends/sltrends_station.shtml?stnid=8771510)

as high as 28 feet above normal tide levels in recent hurricanes<sup>7</sup>. Storm surges and SLR are an apparent physical financial risk due to climate change for vulnerable Valero facilities, such as the Corpus Christi, Texas City, Houston, and Port Arthur facilities in Texas, as well as the Meraux and St. Charles refineries in Louisiana.

Diminished refining utilization rates, downtime or closure of these facilities due to direct damage to the facility, danger to employees, disruption in supply chains and distribution centers, and/ or power supply due to storm surges or SLR could have a material impact on production and related cash flows. This was made evident by Hurricane Katrina which caused a spill at the Meraux facility in 2005, then owned by Murphy Oil.<sup>8</sup> The facility also saw damages from the 2008 hurricane season.<sup>9</sup> In its 2010 SEC Form 10-K, Murphy Oil disclosed that its Meraux facility faced physical risks from climate change, writing, “The physical impacts of climate change present potential risks for severe weather (floods, hurricanes, tornadoes, etc.) at our Meraux, Louisiana, refinery in southern Louisiana and our offshore platforms in the Gulf of Mexico.” Valero acquired the Meraux facility from Murphy Oil on October 1, 2011 and has not disclosed risks from the physical impacts of climate change for this facility or any others since that time.<sup>9</sup>

Though the Valero annual report filed using form 10-K on February 27, 2014 notes that there could be “weather conditions that disrupt the supply of and demand for refined products,” mentioning Hurricane Sandy as an example, the only direct discussion of climate impacts is related to regulation expenses in the “Risk Factors” section:

“Compliance with and changes in environmental laws, including proposed climate change laws and regulations, could adversely affect our performance.<sup>10</sup>”

While Valero’s disclosure of this and other current and potential material impacts of climate change mitigation and adaptation requirements in the company’s disclosure through form 10-K is useful, specific disclosure regarding the company’s awareness of and preparation for material risks related to storm surges or SLR should also be included, along with estimates of the potential financial costs that will be incurred. This type of information is essential for investors and of interest to members of the public, especially communities living near such facilities.

UCS notes Valero’s consideration of climate change through a commitment to reduce greenhouse gases, the statement that Valero “participates in professional and public-policy forums that address climate change and its potential impacts” on the “Environment and Safety” page of the Valero website, and discussion of natural disaster planning and preparation in its 2013 Social Responsibility report.<sup>11,12</sup> In this spirit, UCS would welcome the opportunity to discuss the potentially material impact that climate-related storm surges and SLR may have on Valero’s coastal refining operations and to consider how the company’s disclosures related to the SEC’s guidance on climate risk may be enhanced to reflect the importance of these issues.

---

<sup>7</sup> <http://www.nhc.noaa.gov/surge/#FACTS>

<sup>8</sup> [http://www.epa.gov/osweroe1/docs/oil/fss/fss06/smith\\_d.pdf](http://www.epa.gov/osweroe1/docs/oil/fss/fss06/smith_d.pdf)

<sup>9</sup> <https://www.sec.gov/Archives/edgar/data/717423/000119312511049276/d10k.htm>

<sup>10</sup> <https://www.sec.gov/Archives/edgar/data/1035002/000103500214000008/vloform10-kx12312013.htm#sB8230C7869E4716607E733090035651C>

<sup>11</sup> [http://www.valero.com/environment\\_safety/pages/greenhousegas.aspx](http://www.valero.com/environment_safety/pages/greenhousegas.aspx)

<sup>12</sup> [http://media.valero.com/flash/socialreport/srr.html#/Social Responsibility Report 2011/14-15](http://media.valero.com/flash/socialreport/srr.html#/Social%20Responsibility%20Report%202011/14-15)

We would welcome the opportunity to discuss the details of this inquiry further. Please contact Gretchen Goldman, Lead Analyst in the Center for Science and Democracy at the Union of Concerned Scientists, at 202-331-6942 or [ggoldman@ucsusa.org](mailto:ggoldman@ucsusa.org). Thank you for your time and attention to these important issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Gretchen Goldman". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Gretchen Goldman, Ph.D.  
Lead Analyst  
Center for Science and Democracy  
Union of Concerned Scientists

cc:

Kirk Saffell  
Senior Vice President, Health, Safety & Environment  
Valero Energy Corporation

Andrew Rosenberg, Ph.D.  
Director  
Center for Science and Democracy  
Union of Concerned Scientists

Christina Carlson  
Policy Research Assistant  
Center for Science and Democracy  
Union of Concerned Scientists