

Submission by

Z Energy



to the

External Reporting Board (XRB)

on the

Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)

2 May 2022

Introduction

Z Energy (Z) welcomes the opportunity to submit to the External Reporting Board (XRB) on the proposed Strategy and Metric and Targets sections of the Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) consultation document.

Z is acutely aware of the risk's climate change poses, including financial risks related to future earnings and the value of assets. In line with our integrated reporting approach, Z adopted the TCFD Framework in FY20 to begin to further assess the business's climate-related risks and opportunities. In line with the Government's recommendation to introduce mandatory climate-related financial disclosures by 2023, we are in year three of a [four-year TCFD roadmap](#) to provide transparency of Z's most material climate-related financial impacts.

However, our commitment doesn't stop there. Like many entities that have begun their reporting journey, we know this will require ongoing work and capability building to improve the quality of our risk assessment and the information we disclose.

Z supported the passage of the Government's CRD Act and welcomes the opportunity to continue working constructively with the XRB and associated agencies such as the Ministry of Business, Innovation and Employment (MBIE) to help ensure a smooth implementation and operation of the CRD regime.

Response to Consultation Questions

Do you think the proposed Strategy and Metrics and Targets sections of NZ CS 1 meet primary user needs?

Strategy section

First-time adoption standards

Z acknowledges that some of the most challenging aspects of the disclosures are where entities will have to quantify financial impacts and speak to the resilience of strategy under different scenarios.

As such we support the XRB's proposed first-time adoption standards (NZ CS 2) which will offer various provisions to entities when new standards or requirements are to be applied for the first time, and can include practical expedients, phased adoption, or relief from providing comparative information.

We agree with the emphasis on allowing entities more time to develop meaningful disclosures describing and quantifying the financial impacts of climate-related risks and opportunities. We also support the proposed sequencing of transition and adaptation planning disclosures and that it is appropriate to the relative urgency.

Publication of guidance

While this is a complex topic and an entirely new regime, we note the intention of the XRB to publish guidance that reporting entities can refer to when making their

disclosures as part of the exposure draft of the climate-related disclosure framework in July 2022.

The publication of guidance is both strongly encouraged and welcomed by Z as an important step in ensuring a meaningful reporting journey for all reporting entities, fostering collaborative opportunities to grow capability in these areas, and a consistent application of the standard as set out in the Act.

We would welcome and encourage other initiatives to support the effective implementation of the standards such as training or learning opportunities, support tools or sharing practical 'good practise' examples.

Transition and adaptation plans

Z agrees with the XRB that both transition and adaptation plans are important aspects of an entity's overall strategy, but request clarification from the XRB on what is needed in these plans, especially for adaptation as distinct from transition. We note and support the XRB's intent to set out in guidance what New Zealand-specific considerations should form part of transition plans and develop further guidance on adaptation plans (subject to first-time adoption provisions).

On transition plans, Z notes that in the proposals, plans themselves do not have to be tied to a particular target. We believe that given the New Zealand context regarding the Climate Change Response Act 2002, that entities should be required to disclose how their transition plans are aligned with New Zealand's 2050 net zero target and limiting global temperature increase to 1.5 degrees C of warming. This would help to achieve a level playing field across all reporting entities under the CRD and to provide clarity to users on whether transition plans would help achieve the economy wide shifts needed.

Scenario analysis

Z notes the inclusion of disclosures on the methodologies and assumptions (which are covered in guidance by the TCFD) that reporting entities have used as part of their scenario analysis to aid primary users when comparing information between entities. Z acknowledges that this seems a reasonable weighting towards more prescriptive content to enable greater comparability between entities and recognizes the core role of scenario analysis on resulting assessment of impacts.

We note that the proposals do not prescribe exactly which scenarios to use – i.e., some companies might use a moderate scenario like 2.7 degrees C warming, while others may use a more extreme scenario – resulting in different assessments of how resilient an entities strategy is. While collaboration at a sector level will likely help to establish a common approach, Z believes that guidance to be provided by the XRB should clarify how often these should be updated and tested, as there is still scope in the standards for entities to take quite different approach and apply a lesser or greater 'stress test'.

Description of business model and strategy

We note the intention for reporting entities to include an additional standalone disclosure of a description of the entity's business model and strategy to help ensure that disclosures (and subsequent disclosures) relating to the impacts of climate change on the business model and strategy can be understood.

Z acknowledges the intent of this description within a disclosure but notes that duplication may occur as the required information will likely be covered elsewhere by entities including in annual reports.

Metric and targets section

Z supports the flexibility for entities to consider which metrics are most relevant to report against, while providing consistency and comparability across those metrics. We support this disclosure due to the importance of understanding value chain emissions but acknowledge that for some entities this may be very difficult to measure.

On assurance

Z supports the requirement for independent assurance to be provided over the GHG inventory from 27 October 2024, noting we currently have our GHG data independently verified by a third party.

However, Z cautions against the XRB's proposal to broaden the assurance need to all disclosures given the significant cost this will impose on reporting entities with minimal benefit. Seeking reasonable assurance for GHG emissions reporting alone may cost Z around \$30-\$40,000 on an annual basis. Broadening this requirement to the entirety of the standards would add excessive costs where there may be no tangible benefit. While independent assurance may provide comfort to users, it is not an alternative to investors undertaking their own due diligence.

Additionally, due to the fact that the future is unknowable, and therefore forecasts and predictions can only seek to project based on assumptions, the most important element of any forecast/prediction is the exposure of the underlying assumptions that generate that forecast. Auditing could be of value to ensure that the most material assumptions are disclosed, and that the assumptions disclosed are in fact the ones that generate the forecast. Beyond this however, it is hard to see a benefit of auditing the forward-looking disclosures.

Z seeks clarification from the XRB on what additional value independent assurance would provide to all disclosures, as any move to require additional assurance should be specific to certain aspects of the disclosures where a greater level of assurance is desired and not blanket applied.

Do you think that the information provided under these sections of the standard will provide information that is useful to primary users for decision making?

Please refer to our comments throughout the submissions that consider the usefulness of the information to reporting entities. Z agrees that the information provided under these sections of the standard will provide information that is useful to primary users for

decision making and importantly, provides a level playing field across reporting entities which is incredibly important for an orderly and equitable transition.

Do you consider that these sections of the standard are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

Clarification on developing capability/reporting maturity and penalties

Z notes comment by the XRB that 'no-one is expecting perfection [from reporting entities] on day one.' While we appreciate the intent of this comment is to acknowledge that there will logically be a bedding in period of new reporting processes within organisations – including understanding current risks, opportunities, and financial implications – Z strongly encourages the XRB to provide clarification on how long this grace period will run for.

Similarly, we ask the XRB to clarify expectations on the balance between growing capability and developing reporting maturity (noting the comment that the “in the early years we expect to see some CREs disclosing that they only have a limited understanding of the impacts and financial impacts of climate change. This in itself is likely to be material to primary users...”) and invoking penalties (noting the fine for knowingly failing to comply with climate standards is up to \$2.5 million for an entity).

This clarification is particularly important from Z's perspective to help ensure the CRD regime properly incentivises good performance, does not unknowingly create scope for laggards, and fosters a level playing field across all reporting entities in the letter and spirit of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Act).

Do you consider that these sections of the standard are adequately comprehensive and achieve the right balance in terms of prescriptiveness and principles-based disclosure? If not, what should be removed or added to achieve a better balance?

A principles-based approach to disclosures

Z strongly supports the XRB's approach in making disclosures more principles-based, focusing more on high-level areas for disclosure, rather than being overly prescriptive, and taking a considered and deliberate approach where either greater specificity/direction is needed for comparability and fairness. This is important to ensure that the regime remains meaningful and doesn't become a futile compliance exercise.

While we agree that there needs to be sufficient flexibility in the regime allowing entities to provide more or less information depending on the extent to which they are impacted by climate change, we note that in order to achieve the intended outcomes of the CRD, comparability and an even playing field for entities is critically important.

Other matters

Z would like to acknowledge the XRB for their collaborative approach and efforts to consult all relevant stakeholders on this important matter, as well as offering staged pathways (i.e., first-time adoption standard) to full compliance.

We would welcome the opportunity to hold a short briefing session with you to go through our submission in more detail and look forward to arranging this with you at your earliest convenience.

If there is any further information that would be of use to XRB, please do not hesitate to contact us.

Ngā mihi nui,

A handwritten signature in black ink, appearing to read 'G. Glendinning', with a long horizontal stroke extending to the right.

Grant Glendinning
Financial Controller
Z Energy