



2 May 2022

External Reporting Board

Level 7

50 Manners St

Wellington 6142

climate@xrb.govt.nz

## **SUBMISSION ON THE AOTEAROA NEW ZEALAND CLIMATE STANDARD 1: CLIMATE RELATED DISCLOSURES STRATEGY AND METRICS & TARGETS CONSULTATION DOCUMENT**

1. Mercury NZ Limited (*Mercury*) welcomes the opportunity to comment on the Strategy and Metrics & Targets Consultation Document for the Aotearoa New Zealand Climate Standard 1 (*NZ CS 1 / the Standard*).
2. Overall, Mercury strongly supports the proposed Strategy and Metrics & Targets disclosure requirements set out in the Standard. Since commencing voluntary climate reporting, we have deepened our understanding of how best to identify, assess and manage our climate-related risks and opportunities. During this period we have improved our governance and disclosure of those risks and opportunities. We see significant value in reporting on climate-related risks and opportunities and welcome the introduction of these mandatory reporting requirements.
3. In particular:
  - Mercury supports the alignment with Task Force on Climate-related Financial Disclosures (*TCFD*) and International Sustainability Standards Board (*ISSB*) recommendations. We have been voluntarily reporting against TCFD recommendations for three years. Alignment with international standards will ensure consistency within reporting in New Zealand and overseas, and will assist entities which have already been reporting to transition to the new mandatory reporting regime.
  - We support XRB's proposed principles-based approach which allows Climate Reporting Entities (*CREs*) to focus on what is most meaningful and material for their primary users, and which allows CREs to align with their existing business requirements and reporting obligations.
  - Mercury welcomes the opportunity to assist in providing guidance for the energy sector by working with XRB in 2022.
4. Notwithstanding this, providing the level of detail that the Standard proposes will be challenging, even for reporting entities like Mercury who have produced several climate statements already and committed considerable resources to Climate Related Disclosure (*CRD*) reporting and data gathering. Consequently, our submission proposes adjustments to acknowledge some of the

most challenging disclosures for CREs, while seeking not to dilute the utility of the Standard for primary users.

5. In summary, Mercury's submission seeks:

- Retention and confirmation of the disclosures as proposed in the consultation document.
- Recognition of the gaps and deficiencies in publicly available climate science data to inform climate change scenario analysis and climate statements and acknowledgment that this may require CREs to make qualitative rather than quantitative statements in many cases, or may limit the level of detail that can be provided in climate statements – particularly in the first few years of reporting.
- Confirmation that the guidance will provide clarification on the XRB's intended application of some aspects of the proposed disclosures – including the definition of "potential" and the threshold set by the phrase "may plausibly occur in the future", and guidance as to when qualitative statements may be used in data-deficient situations.
- Definition of the term "vulnerable to climate risk" to assist with reporting against the mandatory cross-industry metrics.

6. We discuss the details of our submission points below.

#### **MERCURY AND CLIMATE-RELATED REPORTING**

7. Mercury is a generator and national retailer of electricity in New Zealand. Mercury generates all of its electricity from 100% renewable energy sources (hydro, geothermal, and wind). Mercury is listed on the New Zealand Stock Exchange and the Australian Stock Exchange with foreign exempt listed status.
8. As a 100% renewable electricity generator, we are at the forefront of New Zealand's transition to a low emissions economy. We are keenly aware of the challenges and opportunities presented by the drive to decarbonise New Zealand's energy system. We have a key role to play in that transition.
9. 2021 was the third year that Mercury has reported on climate-related disclosures in accordance with the recommendations of the TCFD. (Our 2021 Annual Report can be accessed [here](#)). We see climate-related disclosures as a major opportunity to support and structure thinking within our organisation on climate related risks and opportunities. Consequently, we welcome the entry into force of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (*CRD Act*).
10. We have been able to provide steadily more comprehensive CRD information each year, and in FY21 we completed our first scenario analysis consistent with our FY20 Climate Change Management Plan commitments. Our FY21 Climate Change Disclosures were featured in the Climate Disclosure Standards Board's (CDSB) "TCFD Good Practise Handbook".<sup>1</sup>

---

<sup>1</sup> Climate Disclosure Standards Board *Good Practise Handbook* (November 2021), online at [https://www.cdsb.net/sites/default/files/tcf\\_d\\_good\\_practice\\_handbook\\_v5\\_pages.pdf](https://www.cdsb.net/sites/default/files/tcf_d_good_practice_handbook_v5_pages.pdf), pp 17 & 18.



11. We are currently working to deepen our understanding of the physical climate risks to our generation assets and aim to incorporate climate change into our existing extreme event modelling.

### **MERCURY'S SUBMISSION POINTS**

12. As noted above, there are many aspects of the proposed disclosures in the Consultation Document that Mercury considers to be appropriate and strongly supports. We have focused our submission points on key areas of interest.
13. Mercury supports an approach to reporting that promotes consistency and comparability while allowing CREs to align reporting to other statutory reporting required currently. For example, as a listed issuer, Mercury is required to make market disclosures to comply with the Listing Rules and related legislation. Mercury would appreciate an acknowledgment in the "Presentation" section of the Standard that disclosures may be made via these existing channels where appropriate, so long as material is appropriately cross-referenced or linked within entities' annual climate statements.
14. In this regard, Mercury considers that it is important that climate risk is not seen as a standalone or unique type of financial risk that requires separate and distinct treatment. Were the Standard to promote such a distinction it would be inconsistent with the underlying drivers of the TCFD recommendations. The mainstream consideration and adoption of climate risks is best served by enabling CREs to manage and report on climate risk in a manner that is consistent with existing good practice risk reporting.

### **Strategy**

#### *General comment on proposed Strategy section - Consultation Question 1*

15. XRB proposes CREs report on actual and potential financial impacts (Paragraphs 5(b) – (d) and 6(c)). These are challenging aspects of the draft Standard. Mercury submits:
  - The proposed definition for "potential" is "*impacts or financial impacts that may plausibly occur in the future*". Mercury considers that this "plausible" threshold is workable but suggests that the Standard and any guidance provided by XRB must be clear that the "plausible" threshold used in climate statements differs to other thresholds used in other financial disclosures that CREs are making. Guidance from XRB on the application of this "plausible" threshold would assist both CREs and primary users understanding disclosures. For example, the guidance could helpfully clarify that:
    - while impacts must be identified where they are plausible, this is a lower threshold than is applicable for other financial disclosures; and
    - within that plausibility threshold there are varying degrees of likelihood of an impact occurring, which may influence the CRE's approach to risk management and strategy.
  - XRB proposes that there be a movement towards quantitative reporting, acknowledging in the discussion document and proposed adoption provisions that many CREs will only be able to make qualitative statements initially. Mercury suggest the Standard picks up the ISSB language which expressly recognises that, where an entity is unable to provide quantitative disclosures, it shall provide qualitative



information.<sup>2</sup> It would assist CREs if that direction was articulated clearly in the Standard or, as minimum, in the XRB guidance.

*Methodologies and assumptions - Consultation Question 1*

16. Mercury already discusses its methodologies and assumptions in its climate reporting and strongly supports this aspect of the proposed disclosures.
17. Transparency in this regard is important – it helps primary users to understand the substantive disclosures, and aids comparability between CREs. We support the proposed requirement to disclose methodology and assumptions in climate statements and note that in particular, it will be important for CREs to identify where they are assuming future use of technology such as carbon capture and storage.

*Business model and strategy - Consultation Question 2*

18. Mercury does not consider separate disclosures are needed in respect of its overall business model. Discussions of relevant aspects of a CRE's business model will naturally flow in discussing strategic climate risks and opportunities, impacts, and other aspects of the strategy disclosures.

*Scenario analysis - Consultation Question 3*

19. Mercury generally supports the two scenarios that XRB proposes to prescribe and agrees they are appropriate. We also support disclosure of external parties or stakeholders involved in scenario analysis.
20. Mercury completed its first scenario analysis in FY21. What became apparent through that exercise was that there is still a lack of publicly available physical data and information from which to build climate scenarios in New Zealand. We used NIWA data, but that was only available at a national level. There is a significant gap between the national-level data and the regional-scale information which is needed to effectively inform more granular consideration of impacts on particular CREs' operations. This data gap is currently inefficiently being filled by privately commissioned data for regional requirements.
21. Mercury submits that the Government should create a better funding model for Crown Owned Entities such as NIWA, MetService and organisations that conduct climate science research (e.g. Universities). Improved, dedicated funding would allow the creation of transparent and publicly available datasets on physical climate impacts (both at a national and regional level) that can then be incorporated into climate change scenario analysis and subsequent reporting. The current process means a duplication of effort and those organisations not able to fund access to data are losing out – ultimately to the detriment of primary users. This data gap can be plugged, and Mercury considers that publicly available datasets will be hugely beneficial for both CREs and the market generally.
22. Mercury appreciates that the XRB is not able to make such a commitment on behalf of the Government, but suggest that as part of establishing the Climate Standard framework, XRB communicate to the relevant Government entities the importance of and urgent need to support reporting with transparent and publicly available datasets.

---

<sup>2</sup> Exposure Draft IFRS S2 Climate-related Disclosures" at <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>, (ISSB Standard) at [14].



*Adaptation and transition plans - Consultation Question 4*

23. Mercury supports the proposed incorporation of adaptation and transition plans into climate reporting. We are navigating transition risk as part of our core business, and are also undertaking adaptation planning as a result of business and other regulatory drivers (for example the reporting obligations under section 5ZW of the Climate Change Response Act 2002).
24. While actions are underway internally to develop transition and adaptation plans, they are still in the development stage and are also impacted by the issues with data availability (as discussed above). Mercury therefore supports the XRB's proposed adoption provisions which will allow for progressive moves towards the development and incorporation of these plans.

**Metrics & Targets**

*General comments on proposed Metrics & Targets – Consultation Question 7*

25. Mercury generally supports the proposed Metrics and Targets disclosures.
26. In respect of the proposed cross-industry metrics, Mercury makes the following specific comments:
  - Mercury supports the mandatory cross-industry metrics related to scope 1-3 emissions and emissions intensity. We already measure and report against those metrics and agree they are key to understanding how a CRE measures and manages its climate-related risk and opportunities.
  - Two of the other mandatory metrics proposed are the percentage or amount of assets “vulnerable to” physical risk and transition risk. The determination of what is “vulnerable” to risk is left for CREs’ judgment. This creates potential for divergence between CREs, which could then result in issues of comparability between climate statements. Mercury considers that it would be beneficial to ensure that CREs are using a similar standard when determining the assets that they consider to be vulnerable. We consider that a definition of “vulnerable” would assist in driving greater consistency and clarity in the reporting of those metrics.
27. Mercury already commissions a Greenhouse Gas (GHG) inventory report and supports the proposed requirement for CREs to prepare a GHG Report for assurance and inclusion in climate statements.
28. Mercury supports the proposed disclosure requirements related to disclosure of targets and already has this work underway.



### *Industry-specific metrics – Consultation Question 8*

29. Mercury supports the XRB's proposal not to specify industry-specific or entity-specific metrics. It is appropriate to leave this detail for CREs to determine, as relevant to their business and with an eye to what is most useful, material, and relevant for primary users.
30. We consider though, that sector-specific guidance is necessary and will be highly valuable. We note the ISSB Standard contains a set of proposed metrics for the electricity utilities and power generators which could usefully inform any guidance from the XRB.<sup>3</sup>

### **Assurance**

#### *Assurance – Consultation Questions 10 and 13*

31. Mercury is supportive of requiring only limited assurance, with CREs having the option of seeking reasonable assurance on a voluntary basis – this appropriately reflects the early stage in development of climate related disclosures and the need to continue to build capacity and capability in this area.

### **Materiality**

32. Mercury suggests that, where possible, the Standard should seek to achieve consistency with existing financial reporting materiality tests. To that end Mercury suggests that the Standard's materiality definition could more directly align with the test set out in section 59 of the Financial Markets Conduct Act 2013. That materiality test focuses on information that "*a reasonable person would expect to, or to be likely to, influence*" relevant investors. Application of this test could avoid CREs having to grapple with multiple and/or diverging approaches to materiality and provide for greater consistency in the treatment of climate-related matters as core business issues.

### **Adoption**

33. Mercury supports the XRB's proposed approach to adoption, including the option for CREs that are more advanced to choose not to use first time adoption provisions if they are able to comply with the main disclosure requirements in their first climate statement.

---

<sup>3</sup> ISSB Standard, Appendix B32, available at <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b32-electric-utilities-and-power-generators.pdf>



## CONCLUSION

34. Mercury looks forward to publication of the full exposure drafts for NZ CS 1 and the accompanying adoption and general requirements standards in July 2022. We would welcome the opportunity to provide input into guidance for the energy sector.

**Lucie Drummond**

General Manager Sustainability

[lucie.drummond@mercury.co.nz](mailto:lucie.drummond@mercury.co.nz)

**Mercury NZ Ltd**

The Mercury Building,  
33 Broadway, Newmarket, 1023  
P O Box 90399, Auckland 1142

