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CLIMATE-RELATED DISCLOSURES – STRATEGY, AND METRICS AND TARGETS CONSULTATION DOCUMENT (NZ CS 1) – VECTOR SUBMISSION TO THE EXTERNAL REPORTING BOARD

Overview of submission

- 1 Vector welcomes the opportunity to submit to the External Reporting Board (XRB) on the Aotearoa New Zealand Climate Standard 1: Climate Related Disclosures (the Standard) Strategy and Metrics and Targets Consultation.
- 2 Vector has committed to TCFD reporting (its first TCFD report was published in 2021) and supports the introduction of climate-related disclosures (CRD) in New Zealand as an important step on the pathway to achieving a low carbon future. Our reasoning is simple: it is in our interest as a company to be a leader in the transformation of the energy sector and to ensure that the management and maintenance of distribution assets takes into account, anticipates and appropriately responds to climate-related risks and opportunities. Vector also sees a clear role for businesses like ours to provide our stakeholders with the information that supports robust, long-term business strategy and investment decisions.
- 3 Vector is currently in the process of preparing its second CRD report and is therefore well placed to consider the impact of the Standard while it is still under development.
- 4 Vector recognises that CRD reporting is an area of evolving guidance from the TCFD, the IFRS Technical Readiness Working Group and the ISSB.¹ In particular Vector notes that the ISSB Protocol released on 31 March 2022 (after the XRB consultation was published) is highly relevant to the Standard and we therefore propose various changes to ensure alignment.
- 5 Vector supports the Standard and the urgency of requiring disclosures aligned with the Standard as soon as possible. Vector notes that providing the level of detail that the Standard proposes will be challenging, even for reporting entities like Vector which have committed considerable resources to CRD reporting and established a team of subject matter experts. Vector therefore proposes adjustments to acknowledge some of the most challenging disclosures for reporting entities while seeking not to dilute the utility of the Standard for users. In particular:
 - 5.1 Recognition that qualitative disclosures may be provided in response to Strategy Disclosures paragraphs 5(b) – (d) and 6(c) where quantitative data is not available, is commercially sensitive, or would be disproportionately difficult to produce (with little value for users). [paragraph: 12 - 16]

¹ TCFD "Guidance on Metrics, Targets, and Transition Plans" October 2021 at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf; ISSB "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>, referred to in this submission as the **ISSB Protocol**.

- 5.2 Adoption of pragmatic language in the ISSB Protocol which requires disclosure of "*significant climate-related risks and opportunities*" that "[the entity] *reasonably expects could affect*" business, strategy and cash-flows. [paragraph: 13 - 14]
 - 5.3 Removal of the requirement to report on business model, while retaining the requirement to report on business strategy. This is to cater for enterprises like Vector that have numerous businesses, including regulated businesses where the business model is set by the Commerce Commission. [Paragraph 17-18]
 - 5.4 Clarification of the level of detail required for disclosure of assumptions relevant to climate scenarios, such that disclosure is limited to "a summary of nature and types of material assumptions", as opposed to all assumptions. This is to avoid over inflation of the disclosure. [paragraph: 19-20]
 - 5.5 Specific clarifications on definitions in Metrics and Targets. See especially in 7(b) where we strongly suggest a change in wording from "validated by a third party" to "validated or developed by a third party". [paragraph: 24]
 - 5.6 The relevance of the ISSB Protocol's Industry-based Disclosure Requirements. [paragraph: 25 - 28]
- 6 In addition, and consistent with the views above, Vector's submission includes:
- 6.1 specific support for the Standard's first year adoption provisions; and
 - 6.2 discussion regarding the relevance of the ISSB Protocol's Industry-based Disclosure Requirements – particularly with respect to electricity utilities (Volume B32) and gas utilities and distributors (Volume B34).

Strategy Disclosures

- 7 Vector has invested significant internal expertise to produce its CRD report for 2021 and to deepen its disclosures for its 2022 CRD report.
- 8 It is perhaps useful to clarify the extent of resource and investment required to produce a meaningful CRD report. The construction of a TCFD report requires significant engagement of staff throughout the business units as well as a team of skilled dedicated staff. Vector has a core working group of nine employees who have input into Vector's preparation of its CRD reporting, along with strategic guidance and reviews from general managers, executive, and board members across the Vector Group. More specifically, Vector's internal resource allocation to CRD reporting for the 2022 financial year includes involvement from the following parts of the business (FTE figures are approximate, based on shared roles):
 - 8.1 Sustainability: 0.8 FTE entirely focused on Vector's carbon accounting year-round, and 0.5 FTE senior partner oversight over 6 months;
 - 8.2 Risk/Legal: 1 FTE on CRD (via three employee roles) over 6 months;
 - 8.3 Modelling insights: 1 – 2 FTE for modelling over 3 months;
 - 8.4 Finance: 1 FTE focussed on CRD for the equivalent of 3 months;
 - 8.5 Project management: 0.2 FTE focussed on CRD over 6 months;

- 8.6 Wider Business: Strategic guidance and review from general managers across the Vector group; and
- 8.7 Executive and Board: Strategic guidance and review from executive and board.
- 9 The above resource has already been committed by Vector and is, we think, necessary at this stage to ensure our CRD disclosures are prepared to the required standard, valuable for investors, and for the business in shaping our strategy. However, we highlight the significant cost and resourcing that is required to produce such reports because Vector is keenly aware that few reporting entities will be in a position to deploy the level of skill and resource that Vector has found to be necessary.
- 10 Despite the significant resourcing above, there are aspects of the Standard that we anticipate will be difficult to comply with. The more detail that is required (particularly of a quantitative nature) in a TCFD report, the greater time and expense that will go into drafting and assurance, as opposed to running our core business and national decarbonisation initiatives. Vector submits that this extra resource may not provide additional benefit to primary users.
- 11 Vector therefore seeks some amendments and clarifications of the intent of the Standard. In particular, Vector would appreciate guidance on how to approach disclosure (or explanation when disclosure is not appropriate) of specific risks and opportunities that Vector is presently unable to quantify, and others which cannot be disclosed due to commercial sensitivity.

Financial impacts on financial position, financial performance and cashflows – Consultation Question 1

- 12 Vector already provides detailed reporting of its plans arising from the specific climate-related risks and opportunities it has identified. However, quantifying these impacts is difficult where large assumptions are necessary. For example:
- 12.1 One of Vector's current identified risks is extreme weather-induced disruption to the network. It is presently difficult to financially quantify the impacts of this risk given the significant numerical-sensitivity of variables. However, Vector acknowledges the importance of disclosing this information to investors and primary users of CRD reports where practicable. Consequently, Vector is working closely with academic institutions to establish research pathways (including via PhD theses) to support more specific reporting. While already underway, it is likely that these research pathways will take several years to deliver results. In the meantime, qualitative disclosures on the overall direction of Vector's assessment are possible and will still be useful for users/investors. However, requiring disclosure of detailed quantitative data relating to financial impacts (i.e. beyond the fact of network disruption and its high level effects) before research enables those disclosures to be meaningful, would be of limited additional use, and may be misleading (given the high level of assumptions) – an outcome to avoid.
- 12.2 One of Vector's identified opportunities is currently the development of data platforms for energy optimisation. This is a significant global opportunity, where Vector holds strategic alliances with key global partners. However preparing and disclosing quantified financial numbers remains commercially sensitive and can be misleading to users/investors as the data is reliant on highly sensitive assumptions, such as the growth of competition within this space, and the evolution of the technology. Once again, in this example, it would be more informative for primary users of CRD reports to understand the opportunity through qualitative disclosures.

- 13 Vector therefore submits that:
- 13.1 pragmatic qualifiers be added to the overarching proposed Strategy disclosures, such as those proposed in the ISSB Protocol, to focus on "significant climate-related risks and opportunities" that "it reasonably expects could affect" business, strategy and cash-flows (ISSB Protocol, paras 8(a), 9 and 13(a)); and
- 13.2 the Standard recognise that qualitative data is acceptable, so long as entities explain clearly why quantitative data is not available. Vector suggest that the Standard adopt wording similar to that in ISSB Protocol para 14, for example, that **"An entity shall disclose quantitative information unless it considers it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information" (and explain why it cannot disclose quantitative information).**
- 14 This qualified language is pragmatic and would give reporting entities confidence that they can appropriately report the most relevant information for users.
- Commercial sensitivity – Consultation Questions 1 and 7*
- 15 Vector asks that the proposed Guidance recognise that quantitative responses to Strategy Disclosures 5(b) – (d) and 6(c) may be commercially sensitive if provided with significant detail.
- 16 Mandatory disclosure of cashflows associated with investments in climate-related opportunities would be counter-productive and undermine the commercial and negotiating position of those businesses investing seriously in such opportunities. For example, Vector has disclosed that it is developing strategic alliances to develop data-driven products and services to optimise renewable energy consumption throughout New Zealand, Australia and globally, but disclosing expected cashflows from this opportunity, as the Standard would require at 5(c), would publicise information that is highly commercially sensitive.
- Business model and strategy – Consultation Question 2*
- 17 Vector is able to disclose climate-related impacts on its businesses, but does not consider separate disclosures are needed in respect of its overall group business model to assist users. In addition, as a regulated entity, Vector's energy distribution business model is defined by the Commerce Commission's regulatory requirements. The Commerce Commission sets the prices which Vector may charge, and the network quality outcomes which must be met. Vector's business strategy is therefore set within this model, which creates restraints for climate reporting purposes.
- 18 Vector therefore suggests that the wording **"business model and strategy" is changed throughout to "business strategy"**.
- Climate-related scenarios – Consultation Question 1 and 3*
- 19 Vector seeks confirmation that the disclosure of assumptions for entities' scenario analysis required by paragraph 7 is for disclosure of high-level assumptions only. One of Vector's scenario models to evaluate electricity network transition resilience contains an assumptions document that is over 50 pages long. It would not be practical or decision-useful for it to be required to disclose every specific assumption related to markets, policies, societal behaviour and technology changes.
- 20 Vector therefore seeks clarification that the **assumptions disclosure is limited to "a summary of nature and types of material assumptions"** supporting its scenario analysis where it is necessary to understand that analysis.
- Global mean temperature increase – Consultation Question 3*
- 21 Vector agrees that XRB should not prescribe which global mean temperature increase should be used to explore higher physical risk due to varying materiality between industries. For example, some businesses may already be adversely affected by a 1.5C pathway, whereas for others this would not meet the materiality

threshold. The determination of specific/appropriate scenarios may be something to consider within sector-specific coordination and could be usefully discussed in the proposed Guidance.

First-time adoption provisions – Consultation Question 12

- 22 Vector supports the proposal that in the first climate statement, entities can disclose only progress *towards* developing a transition plan, and that that plan would be disclosed in year two.
- 23 As described above, Vector suggests that qualitative information (as opposed to quantitative information) may be necessary for later years, as well as year one. While the adoption provision explaining that solely qualitative information may be provided for year one may appear useful, it would be more useful to recognise how these issues are going to be addressed for all years.

Metrics and Targets Disclosures

- 24 Vector supports the proposed Metrics and Targets Disclosures, and makes the below comments with respect to Consultation Question 7:
 - 24.1 Vector supports there being no definition of “vulnerable” for the purposes of Metrics Disclosures 4(c) and 4(d). The definition of “vulnerable” is best left to individual entities to determine according to their own discretion.
 - 24.2 Vector asks that the requirement at 7(b) to include information of “*whether the target is science-based, and if so, whether it has been validated by a third party*” **change from “validated by a third party” to “validated or developed by a third party”**. The reasoning behind this change is to avoid unnecessary further validation of a target where the science-based target was developed externally. This is directly applicable to Vector’s experience. Vector commissioned a third-party carbon services consultancy to develop its science-based target. This approach was specifically chosen to ensure the developed target was robust, independent and efficiently implemented. Given the approach Vector has taken, a further subsequent external verification is unnecessary. Vector therefore suggests that the wording be amended to enable either subsequent verification by or initial development by a third party.
 - 24.3 Vector supports the disclosure regarding science-based targets in principle, but seeks further guidance as to the definition of “science-based”. Vector has a science-based aligned target, but is not officially part of the Science Based Targets Initiative (SBTi) due to ongoing updates in standards for electricity distribution and transmission companies. More specifically, electricity transmission and distribution companies in New Zealand are not able to get SBTi validation due to the unique nature of the New Zealand electricity market’s regulatory settings, and its treatment of electricity line losses. Vector, along with their wider energy sector partners are working with the SBTi with the hope of amending this standard but is currently unable to get SBTi validation. Vector therefore strongly urges that the definition of “science-based targets” not require SBTi validation in all cases.
 - 24.4 Vector notes that the structure of every entity is different so suggests that each entity has the discretion to determine whether it is appropriate to provide the requirements at 4(c) – (f) at a group level or entity level. This would ensure that disclosures remain appropriate and are able to be managed in a manner that is consistent with other business risks.

- 24.5 Vector supports alignment of the TCFD and ISSB recommendations on para 7 (Targets). Specifically, the proposed Guidance should confirm that entities are not expected to disclose information underpinning targets if that information would release commercially sensitive information. For example, Vector considers the proposed Guidance should confirm whether reporting entities are expected to disclose broad overarching targets for their whole operations, or more granular targets related to any climate risk and opportunity management.
- 24.6 If industry-specific guidance is to be produced, Vector would propose express recognition of the fact that it is normal internationally for electricity lines companies without generation assets to prepare GHG reports that exclude electricity line losses. Vector's emissions reduction target of reducing Scope 1 and 2 emissions excludes electricity line losses.

Industry Specific Metrics – Consultation Question 8

- 25 Vector supports the Standard's current approach to specified industry-specific metrics. Vector considers that the intention for the Guidance to direct preparers where to look for industry-specific metrics is both reasonable and appropriate.
- 26 To assist XRB, Vector notes that it has considered the ISSB Protocol's Industry-based Disclosure Requirements – particularly with respect to electricity utilities (Volume B32) and gas utilities and distributors (Volume B34). Vector suggests that the Guidance refer to sources of potential sector/industry-specific metrics, including cross reference to the ISSB Protocol. Vector notes that many of the Activity Metrics included in the ISSB Protocol relate to data that New Zealand's regulated electricity and gas distributors are required to compile and report (for example in the context of Asset Management Plans) and would provide investors with relatively simple points of comparison.
- 27 However, Vector does not suggest the Standard require disclosure against the ISSB Protocol metrics for three principal reasons. First, the ISSB Protocol metrics remain under development at the exposure draft stage and are expected to be further refined. Secondly, the metrics relate to wider sustainability measures that are not appropriate for inclusion in climate-focused disclosures under the Standard. Finally, many of the metrics require interpretation to be applied in New Zealand's specific regulatory context.
- 28 Notwithstanding the above reasons for not applying the ISSB protocol on a mandatory basis, Vector agrees with the XRB's proposed approach to reference to illustrative international sources of standardised metrics in the Guidance document.

Assurance – Consultation Questions 10 and 13

- 29 Vector is supportive of requiring only limited assurance at this early stage. Vector already undertakes reasonable assurance for its GHG emissions.

Materiality – Consultation Question 14

- 30 Vector broadly supports the XRB's proposed materiality definition. However, Vector suggests that XRB focus less on "enterprise value" and instead maintaining a focus on the qualitative factors that would affect decision-making. More specifically, Vector suggests that the materiality definition align as appropriate with the test set out in section 59 of the Financial Markets Conduct Act 2013 which provides that information is material that "a reasonable person would expect to, or to be likely to, influence persons who [commonly invest in financial products] in deciding whether to [acquire the financial products on offer]". Alignment of the definitions would assist CRE's with consistency in their approach to identifying business risks.

Concluding Comment

- 31 Vector thanks the External Reporting Board for the opportunity to submit on this draft standard, and welcomes the opportunity to engage further by way of oral submission if useful.

Yours sincerely

For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'JH', with a stylized flourish at the end.

Jason Hollingworth
Chief Financial Officer