

## **XRB Aotearoa New Zealand Climate Standard 1 (PART 2) – Climate-related Disclosures**

### **Strategy, Metrics & Targets and Assurance Consultation**

#### **INTRODUCTION**

Transpower is a state-owned enterprise and a NZX listed entity and has dual roles of owner and operator of the national electricity transmission system. We do not generate or sell electricity but are an integral part of the energy sector providing the infrastructure (including 170 substations, 25,000 transmission towers and more than 11,000 kilometres of lines) that connect electricity generators to users and distribution networks in real-time. We also operate the New Zealand electricity market through which generators offer, sell and retailers and major users buy electricity

Transpower is a “reporting organisation” for the purpose of the Climate Change Response Act 2002 (section 5ZW(8(f) and (g)) (CCRA) and a Climate reporting Entity (CRE) under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021.

As an organisation that is well along the road on its TCFD reporting journey, Transpower has a significant interest in the development of a fit-for-purpose Aotearoa New Zealand Climate Standard 1 – Climate-related Disclosures and is keen to ensure this Standard recognises and considers the significant work we have undertaken in this area. As a TCFD-reporting organisation, we strongly support the New Zealand Climate Standard 1 – Climate-related Disclosures approach being closely aligned with the TCFD Guidance on Risk Management Integration and Disclosure, October 2020. We were pleased to observe how closely the proposed sections are to their TCFD counterparts, providing additional clarity where required.

At the same time, we are concerned with the volume of information required to meet disclosure requirements, both from workload and primary user perspectives. We are aware that the XRB allows either an integrated (TCFD preference) or a separate climate disclosures report, however the amount of supporting documentation required including methodologies used, assumptions, narratives and pathways, climate scenarios and governance provided across the development of these scenarios will result in dozens of pages of additional information. Adding this to our regular integrated annual report would result in it roughly doubling in size. A separate, annual financial disclosures report next to a similar-sized regular annual report is not appealing either and would conflict with the TCFD aspiration of offering climate-related information as part of an integrated report. We recommend that the XRB, considering the full suite of climate-

related disclosure requirements, develop alternative ways to disclose climate-related information to primary users in an accessible way that also gives effect to the TCFD aim of having an integrated report. One approach could be to separate *static information* such as corporate government statements, which could be published on the website, and *dynamic information* (anything that changes each year) which could be published in the integrated annual report. We note that regardless of the format all disclosures will need to be auditable.

Our detailed feedback to the proposed sections, listed below, follows the questions provided in the consultation document.

## STRATEGY

### Question 1: Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

#### a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

We agree that the information disclosed under this section will be useful for primary users. We are concerned, however, with the volume of information required to meet the disclosure standard. Disclosing climate-related risks and opportunities, the impacts these might have on the entity and the resilience of the strategy will be insightful for investors and stakeholders. A detailed description of the entity's business model, the transition plan, and the adaptation plan as well as methodologies and assumptions used for scenario analysis will add dozens of pages to the annual report which, as a result, will become voluminous and inaccessible. We recommend the XRB considers alternative ways of disclosing information, separating between direct disclosures (as notes to the financial statements) and supporting disclosures (for example scenarios and plans). The latter category could be disclosed indirectly, such as via linked documents, webpages, or presentations.

#### b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

We are broadly comfortable with the proposed requirements. In line with our response to questions 5 and 7 below we would recommend the XRB include a definition for 'vulnerability'. The term is used as a reference in the definition of resilience but not further defined.

**c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?**

We are broadly comfortable with the proposed text of this section. As per XRB's comments on page 22, we recommend including any disclosure requirements concerning governance over the scenario development process, to be included in the Governance section to avoid duplicating statements and enhancing the integration of all disclosures in the Annual report.

**Question 2: Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?**

We agree that access to a description of the entity's business model and strategy are relevant context for any climate-related disclosures. We do not agree, however, with this description as a standalone disclosure. Instead, we recommend NZ CS 1 require disclosing entities to provide access to this contextual information via a reference document or website.

**Question 3: Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a greater than 2°C scenario? Why or why not?**

We agree to the alternative of leaving this open by requiring a greater than 2°C scenario as this better suits the nature of the data currently available. Hard-coding specific global mean temperature thresholds might not work as climate projections are frequently updated based on the latest actual climate data becoming available.

**Question 4: We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?**

We agree this is best left open at this stage. It should be up to the entity to decide what transition target they aspire to in accordance with their strategy; this should not be prescribed in the NZ CS 1.

**Question 5: Do you have any views on the defined terms as they are currently proposed?**

We are broadly comfortable with the proposed definitions. In line with our response to question 7 below we recommend the XRB include a definition for 'vulnerability'. The term is used as a reference in the definition of resilience but not further defined.

**Question 6: The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1.**

**a) Do you agree with the proposed first-time adoption provisions? Why or why not?**

We agree with the proposed adoption provisions for specific disclosures.

**b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.**

Based on the preparatory work underway to ready ourselves for our first climate statement under the NZ CS1 we recommend extending the adoption provisions for the second climate statement to the transition plan as well, aligning it with the provision for the adaptation plan. This would mean that for the first two climate statements, entities would disclose progress towards developing their transition and adaptation plan instead of providing disclosure of the plan itself.

**c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?**

At this stage Transpower does not expect to request first-time adoption relief.

## **METRICS AND TARGETS**

**Question 7: Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?**

**a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.**

We generally support the approach proposed and the cross-industry metrics and targets are largely consistent with current reporting and disclosure frameworks at Transpower. The information seems to be well considered and brings together what we agree is best international practice in terms of Metrics and Targets.

We also support the proposed approach whereby CREs disclose the standards, protocols and methodologies used – which will allow Transpower to continue current GHG reporting in accordance with the GHG Protocol and ISO 14064-1.

However, we are concerned about the sheer volume of information offered to primary users. As stated in our introduction, the quantum of disclosures required under NZ CS1 will require entities to add dozens of pages to their annual reports, not only making them too long to read but also causing confusion with readers. It is recommended that the XRB considers alternative ways of offering disclosure information, such as a mix of disclosures that have to be included in an entity's report and supporting information that can be made available in separate documents or online. For example, *static information* such as corporate government statements could be published on our website, whereas *dynamic information* (anything that changes each year) could be published in the integrated annual report.

**b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?**

We have some concerns with respect to 4 (c) & (d) – amount or percentage of assets or business activities vulnerable to transition/physical risks. The way this is stated seems ambiguous, which may be deliberate. Does this mean we will report percentage of assets in simple terms (i.e., x/y substations vulnerable to flooding, x'/y' km of transmission line vulnerable to increase bushfire risk etc), or do we need to quantify as an amount/percentage in \$ terms? Does the term 'vulnerable' need to be defined elsewhere (linked to the materiality clause) or is this up to us? The slide pack provided on the XRB site (*Deep dive presentation - M&T - Non-Financials 31-Mar-22 incl. notes*) is useful, in particular page 12. It shows how many are vulnerable (site level) and the split between levels of mitigation and an estimate for mitigation. Our reporting to date is similar, showing the number of sites impacted, but it has been costed at asset write-off only (excludes the cost to harden and mitigate, excludes any response costs to an event and excludes the costs to build it back i.e., replacement costs).

Otherwise, this section is clear and unambiguous in terms of the information to be disclosed. We are concerned however about the effort required to prepare for disclosure.

**c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?**

Given the scale of the Transpower portfolio with a wide range of assets spread across the length of Aotearoa, we do note that there is a risk that the proposed requirements for a description of the methodologies and assumptions used to calculate or estimate climate-related metrics and targets (paras 11 and 12) will create additional administrative and reporting burdens. While this modelling and analysis work is a core part of Transpower's work programme to understand climate-related risks, we have some concerns that the size of Transpower's asset portfolio will result in lengthy reporting documents. Our preference would be for the methodologies and assumptions reporting to be less prescriptive with more detailed information subject to an assurance process (or as per linked documents if these exist).

**Question 8: We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?**

Transpower works closely with the electricity sector on sustainability and TCFD reporting, including attending regular sustainability events with other Electricity Distribution Businesses. We support the absence of prescribed industry-specific metrics proposed; however, we support the TCFD recommendations to ensure a consistent approach to TCFD within the sector (and internationally).

**Question 9: We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?**

Transpower already publicly discloses its scope 3 emissions and has a work programme underway with suppliers and service providers to improve their scope 3 emissions reporting and to set targets.

We note that there are currently several impediments to measuring and reporting scope 3 emissions for Transpower. Scope 3 emissions represent a large proportion of Transpower's annual emissions, largely as a result of our business model which sees much of the day-to-day work in operating and maintaining the national grid contracted out to independent service providers. Whilst we have worked closely with our suppliers and service providers to improve scope 3 reporting, including via contractual arrangements, there are many smaller operators undertaking specific or unique services for Transpower (including work undertaken or contracted directly for our suppliers and service providers) that are not currently able to report scope 3 emissions. Feedback from our typically small service providers and

associated smaller companies and operators is that they are not yet resourced for annual GHG reporting. Nor do they have the skills, knowledge, or systems in place to report their GHG emissions, let alone determine an annual baseline. Many of these are smaller companies, though several are larger NZ-based businesses. Notably, there are several international firms which Transpower relies on for core equipment which are reluctant or unable to provide GHG emissions information as part of purchased goods. For these companies and providers, as part of our annual disclosure, Transpower estimates their scope 3 emissions based on annual financial expenditure with a specific emission factor applied relevant to the nature of the work or activities undertaken for Transpower. This process is documented as part of an internal GHG emissions inventory basis of preparation document that is provided to external auditors as part of a limited assurance process.

Transpower continues to work closely with its suppliers to improve their GHG reporting, including where possible to amend contractual arrangements to reflect Transpower's desire to get accurate scope 3 emissions.

**Question 10: Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?**

No. Disclosure of GHG emissions as proposed is already undertaken by Transpower as part of our annual disclosures, via our annual publishing of the Transpower Integrated Report and an independently assured annual GHG emissions inventory report on our website.

**Question 11: Do you have any views on the defined terms as they are currently proposed?**

No. The defined terms as currently proposed provide the requisite clarity for Transpower.

**Question 12: The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?**

We agree in principle but refer to our response to question 9 above where we outline current impediments to measuring and reporting scope 3 emissions.

## ASSURANCE

**Question 13: The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?**

Yes. We agree, with the exception of scope 3 GHG emissions. Transpower supports a minimum level of limited, independent assurance (as currently undertaken annually by us) for scope 1 and 2 GHG emissions to ensure there is a robust approach to GHG emissions reporting for Climate Reporting Entities.

Providing assurance over scope 3 emissions, even when at a minimum level, is likely to be challenging and very time and resource intensive. At this stage we recommend the XRB exclude scope 3 emissions and review this requirement in the second half of this decade, once the disclosure regime is fully up and functioning.

## MATERIALITY

**Question 14: The XRB has proposed a definition of material (Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term). Do you agree with this definition? Why or why not?**

The definition proposed by the XRB is narrower than the definition used by Transpower for its current annual disclosures: Information is material if omitting, mis-stating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity. We recommend the XRB apply the wider definition, allowing climate-related risks to be linked to other material business related risks and decision making.



**Question 15: Do you have any other comments on the proposed materiality section?**

We felt it was overly complex. We recommend the XRB considers the definitions provided by the Australian Accounting Standards Board in the context of climate-related financial risk which are more easily understood in terms of what to include and whether it is material: [https://www.auasb.gov.au/admin/file/content102/c3/AASB\\_AUASB\\_Joint\\_Bulletin\\_May2019.pdf](https://www.auasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_May2019.pdf) (in particular the diagram on page 5 of this document).