



T R A N S P O W E R

Aotearoa New Zealand Climate Standards

Climate-related Disclosures

Climate-related Disclosure Framework

Consultation Document

Submission to the External Reporting Board

23 September 2022

Address for service:

Transpower New Zealand Ltd
PO Box 1021
Wellington 6140

Attention: Rutger Keijser, Head of Risk and Assurance
Email: rutger.keijser@transpower.co.nz

Telephone: 04 590 6329

Introduction

1. Transpower New Zealand Limited (**Transpower**) is the owner and operator of New Zealand's electricity transmission network, the National Grid¹. The Grid is nationally significant infrastructure, and a lifeline utility under the Civil Defence Emergency Management Act 2002.
2. We are a Climate Reporting Entity under the Climate Change Response Act (Zero Carbon) Amendment Act 2019. We will prepare climate statements in accordance with the climate-related disclosure framework recently issued in draft by the External Reporting Board (**XRБ**). We are also a member of the Climate Leaders Coalition.
3. Transpower's role as Grid Owner is to transport electricity reliably and efficiently from where it is generated to some large electricity users and the distribution companies that deliver it to homes and businesses all over the country. As System Operator, we operate a competitive electricity market in real time to ensure electricity is flowing to where it is needed, 24 hours a day, 7 days a week.
4. We provide an essential service for the good of all New Zealanders. We have a diverse range of assets, which cross a large variety of environments across the country. How the Grid adapts to climate change and other hazards is front of mind. So too is the scale of the task facing Transpower as we play our part in electrifying and decarbonising the economy and meeting the country's climate change commitments.
5. Based on current customer enquiries, our future electrification work programme could reach around 20 new load customer grid connections over the next 10 years as well as many more enhancements to existing load connections to support electrification within distribution networks. Over this time we also expect around 50 new generation grid connections to supply increasing demand with renewable electricity." Any projects required to adapt our infrastructure to accommodate the effects of climate change will add to the infrastructure investment challenge we are facing.

Context

6. Transpower has advanced asset management practices. As the owner and operator of nationally significant infrastructure, and a lifeline utility, our asset management practices consider an extensive range of issues and risks, including those resulting from or exacerbated by climate change, such as:
 - Coastal inundation.
 - Increased frequency of high impact (flood/wind) events.
 - Accelerated erosion.

¹ To operate the Grid, we also own and operate an extensive nationwide telecommunications network.

7. In response to these risks, we will, in time, need to:
 - Relocate assets – individual transmission line structures, as well as substation sites – to address erosion, coastal inundation and increased flood risks.
 - Reinforce/raise assets – to increase resilience to flooding, wind and erosion events.
 - Increase vegetation clearance – to address increased wind and wildfire risks around our assets.

8. We have a number of asset management programmes underway to understand and actively manage our climate risks, including:
 - Improving the resilience information for our assets.
 - Developing resilience risk mitigation options.
 - Embedding resilience into our asset management planning; and
 - Developing and managing contingency plans for each threat.

Our ability to undertake this work depends on Commerce Commission approval of our regulatory allowance. Transpower is currently preparing its submission to the Commerce Commission for its next 5-year Regulatory Control Period, RCP4. Securing funding for work on the grid is subject to two rounds of consultation scrutiny by the Independent Verifier and ultimately approval by the Commerce Commission.

9. Transpower is fundamental to New Zealand's transition to a net-zero carbon economy. We have three roles to enable the electrification load and renewable generation required to meet New Zealand's decarbonisation and climate change commitments. These are:
 - To connect new electrification load and renewable generation to the Grid.
 - To ensure that the core, interconnected grid (including non-network alternatives) can continue to accommodate these new connections.
 - To operate a highly renewable and more distributed power system in real-time.

10. Our stakeholders see us as a critical and central player in the New Zealand energy sector, and an enabler of progress on the big challenges facing our country as it transitions to a net-zero carbon economy.

11. Our Whakamana i Te Mauri Hiko work outlined the need for a long-term transmission grid roadmap that clearly identifies key enabling projects for decarbonisation. Our aim is for all key stakeholders to have a shared understanding of what is required to achieve electrification. This is our Net Zero Grid Pathways (NZGP) programme, and it will outline future development options for the Grid under different supply and demand scenarios. Our Sustainability Strategy outlines a range of related work programmes to address our key sustainability challenge areas, including carbon reduction and climate risk mitigation.

12. Referencing our Whakamana i Te Mauri Hiko, Net Zero Grid Pathways and Sustainability Strategy frameworks, in 2020, Transpower commenced a three-year implementation programme of the recommendations of the Taskforce for Climate-

Related Financial Disclosures (**TCFD**). We have since further refined and articulated our climate-related physical risks, transition risks and developed a range of climate risk scenarios in accordance with the TCFD guidelines and the proposed Aotearoa New Zealand Climate Standard 1.

Comments on the Consultation Document

We support the Aotearoa New Zealand Climate Standards...

13. We support the Aotearoa New Zealand Climate Standards (**NZ CS**) on the basis of these standards providing a clear and consistent reporting framework for Climate Reporting Entities. We are pleased to see how the climate standard framework has evolved since the previous consultation rounds into a coherent and clear suite of documents that will assist us in disclosing our climate-related risks and opportunities in a way that will suit our investors, shareholders and stakeholders. We acknowledge the work undertaken in this regard and appreciate the considered responses provided to our questions around implementation and reporting.
14. We acknowledge in particular the effort that the XRB has taken to reference the work undertaken by the International Sustainability Standards Board (ISSB) to develop its global climate standard and general sustainability standard. We understand that the ISSB's standards will be issued at the end of 2022, at the same time as the XRB publishes its NZ CS. It is our expectation that the XRB will ensure that relevant sections of the ISSB's standards are incorporated into the NZ CS. We operate in a global financial market and are keen to ensure a single and standalone Climate Reporting Standard as a reference framework for Climate Reporting Entities.
15. We have made significant progress on our journey to ready ourselves for our first climate report due after FY24. The level of detail prescribed both in the NZ CS 1 and 3 and in the XRB's associated "*Guidance for all Sectors*" has helped us form a view of the various strands of work, large and small, that need completion before we can prepare our first climate report under the Climate Standard framework. As some of the artefacts required to support our disclosures are quite substantial, we appreciate the opportunity offered in NZ CS 2 to elect one or more of the adoption provisions and be exempted from disclosure over the first reporting period.

...but have identified several areas of concern

Concern: volume of information required

16. As raised in Transpower's last NZ CS submission (April 2022), we remain concerned with the volume of information required to meet the annual climate-related disclosure requirements, both from a workload and a primary user perspective.
17. While NZ CS 3 (paras 13 to 19) allows us some flexibility with the location of our climate-related disclosures, the obligation to ensure the availability of the disclosed

information for the seven-year record keeping period puts a burden on us to maintain and keep available significant amounts of information such as detailed climate scenarios, business model, value chain and relevant strategies.

18. It is our preference for the annual climate-related disclosure to provide a process for separate static information, such as corporate government statements, to be published on the reporting entities website, and dynamic information - anything that changes each year - to be published in an annual report or in a separate climate report.

Concern: scope and size of the Transition Plan

19. NZ CS 1 s.15 requires Climate Reporting Entities to disclose the transition plan aspects of its strategy.
20. Under NZ CS 1, a 'transition plan' is defined as: "An aspect of an entity's overall strategy that describes an entity's targets and actions for its transition towards a low-emissions, climate-resilient state". The XRB in their "Guidance for All Sectors" acknowledge that the development of transition plans is a rapidly evolving field. The XRB suggest Climate Reporting Entities leverage new information and guidance as they become available.
21. The XRB then provide a table (page 33 of NZ CS 3) listing suggested sections required to support this disclosure. Based on the climate-risk assessment work we have undertaken to date, we are concerned the scope of work inferred in this list is significant and likely to result in production of an extensive document articulating our business model, strategy, overview of products and services, how this is integrated into our budget and capital allocation, metrics and targets, skills required and decision points.
22. As raised in our last NZ CS submission (April 2022), as a State-Owned Enterprise, Transpower already has detailed annual reporting requirements, required by legislation, and it is important the XRB framework does not duplicate or at least considers existing statutory company reporting requirements. While we are relatively advanced on our journey to produce our first climate report for FY24, we feel it will be challenging to produce such a standalone document that pulls together so many of the various elements required in a meaningful way. Even if we opt to apply the first-time adoption exemption for this aspect of the disclosures, it will be difficult to produce a document that meets the requirements which, as noted by the XRB in its guidance, might have changed by that time.

Concern: timely availability of datasets to support the disclosures

23. A third area of concern relates to the timely availability of datasets required to calibrate our climate risk scenarios. For entities to articulate accurate climate scenarios and disclose climate-related risks and opportunities over the short-, medium- and long-term, access to recent datasets is crucial.
24. As we understand it, the National Institute of Water and Atmospheric Research (NIWA) is working on regional downscaling of global climate model projections for New Zealand that are expected to be of a suitable scale for Transpower, given the

diverse nature of our assets across New Zealand. NIWA aims to produce the next such projections by June 2024, too late for us to reliably incorporate into our first Climate report.

25. We recommend the XRB reconsider those disclosure requirements which are dependent on timely availability of suitable datasets and add any such requirements to the list of first-adoption provisions captured in NZ CS2.

Response to the XRB's consultation questions

Meeting the needs of primary users

26. We believe the disclosure requirements will provide useful information to primary users for decision making.
27. The NZ CS are generally clear and unambiguous, with the exception of our concern relating to transition planning.
28. The NZ CS are comprehensive and, based on our review, seem to be pitched at the right level. However, we do have concerns that giving effect to all the requirements specified will result in a large amount of information that risks obfuscating the core messages relevant to primary users. For example, while the requirement to disclose the climate scenarios used is sensible, the level of detail required in NZ CS 3 s. 50 adds a significant volume of information which may be challenging to present in a meaningful manner.

Definitions used

29. The definitions used in the NZ CS are generally fine and broadly aligned to terminology used we already use.
30. We note that some definitions might evolve over time (such as 'transition plan') which could result in Climate Reporting Entities having to juggle between the definitions used in the (mandatory) Climate Standards and best practice definitions applied by other frameworks around the globe, such as the ISSB.

Practical concerns

31. We have outlined three practical concerns in the sections above, related to:
 - Volume of information required
 - Scope and size of the Transition Plan
 - Timely availability of datasets.

First-time adoption provisions

32. We appreciate inclusion of the clear and concise adoption provisions specified in NZ CS 2.
33. However, based on the work anticipated to reflect the transition planning aspects in the climate-risk disclosures (see 18-21 above) we recommend amending NZ CS 2 s. 16 to include both the first and second reporting period for clarity. This would mean that for the first two climate statements, entities would disclose progress towards developing transition plans instead of disclosing the plan itself.
34. We also recommend the XRB to consider adding first-time adoption provisions for those requirements where disclosure depends on the availability of suitable NZ-specific datasets.

Staff guidance document

35. We consider the “*Guidance for all sectors*” document a useful addition to the suite of Climate Standards. The guidance document is comprehensive and provides useful links to relevant publicly available documents.
36. We believe no information currently included in the “*Guidance for all sectors*” - document should be moved to the NZ CS. We do, however, recommend moving the list of detailed requirements currently included in NZ CS 3 s. 50 (climate scenarios) to NZ CS 1. We understand the suite of standards need to be read as one document, but the inclusion of highly relevant, prescriptive requirements in NZ CS 3 to support a disclosure requirement already incorporated in NZ CS 1, is unnecessarily complicated.

Location of disclosures

37. We agree with the proposed location and appreciate the flexibility offered.
38. We note the practical concern raised with respect to the requirement to keep a substantial amount of information, regardless of where it is stored, unchanged and available for a seven-year period.